

# Work and Pensions Committee

## Oral evidence: Pension Freedom and Choice, HC 404

Wednesday 13 December 2017

Ordered by the House of Commons to be published on 13 December 2017.

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Members present: Frank Field (Chair); Andrew Bowie; Jack Brereton; Emma Dent Coad; Ruth George; Chris Green; Steve McCabe; Chris Stephens.

Questions 178 - 298

### Witnesses

I: Rich Caddy, Shift Operations Manager, British Steel (Teesside) BSPS Facebook group co-ordinator, David Neilly, Plant Process Operator, Tata Steel UK (Port Talbot), Stefan Zaitschenko, Former steelworker (Teesside) and BSPS Facebook group co-ordinator, and Henry Tapper, Director, Pension Playpen and First Actuarial.

II: Alasdair McDiarmid, Operations Director, Community trade union, Allan Johnston, Trustee Chairman, British Steel Pension Scheme, and Derek Mulholland, Director of Pensions, British Steel Pension Scheme.

III: Megan Butler, Director of Supervision (Investment, Wholesale and Specialist) Financial Conduct Authority.

Written evidence from witnesses:

[British Steel Pension Members Group](#)

[David Neilly](#)

[Henry Tapper](#)

[Allan Johnston](#)

[Financial Conduct Authority](#)

[Megan Butler](#)

[Letter from FCA dated 29 November](#)



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## Examination of witnesses

Witnesses: Rich Caddy, David Neilly, Stefan Zaitschenko and Henry Tapper.

Q178 **Chair:** Welcome. Thank you for coming. I cannot say that of all the people that we invited for this session, but we will be dealing with them later.

Henry, might you begin by introducing yourself and as we go down the row say who you are and remind us why we have invited you?

**Henry Tapper:** I am Henry Tapper. I am a Director of First Actuarial and the founder of the Pension PlayPen and I am a blogger.

Q179 **Chair:** Oh, well you are going to be challenged, then. All right.

**Stefan Zaitschenko:** Good morning, Chair and Committee. My name is Stefan Zaitschenko. I was a steel worker, an engineer, for 37 years and I retired from Tata five years ago, so I am in early retirement.

**Rich Caddy:** Good morning, everyone. Richard Caddy, I work on Teesside and am still currently a steel worker with British Steel. I have been there for 22 years and I am a deferred member of the Pension Scheme.

**David Neilly:** Good morning, Chair. My name is David Neilly. I am a steel worker from Port Talbot, South Wales. I work for Tata. I have been employed there for the last 34 years.

**Chair:** Great. Thanks, David. Ruth?

Q180 **Ruth George:** Thank you. To those of you who are members of the scheme, or deferred members, have you made your decision on what you are doing with your pension fund and did you feel well supported and informed during that process?

**Stefan Zaitschenko:** As I say, I am a pensioner, so I retired five years ago, so what I can say is that at the time, five years ago, the British Steel Pensions Scheme office provided me with every bit of information I needed including a one-to-one interview, and that helped me to take the decision to retire. Recently I have been, through the Facebook group, helping others to take their decisions.

**Rich Caddy:** I have made a choice on the Time-to-Choose. I am looking to change that choice because I do not believe I have currently made an informed decision.

**David Neilly:** I am currently trying to transfer out and not liking the decision I am making, but I have been well informed by my financial adviser, I am having quite a good relationship with him, and I am happy with the way things are going myself.

Q181 **Ruth George:** Rich, did you not feel that you were particularly well advised or supported? What information did you have before you were



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asked to make the decisions?

**Rich Caddy:** I really struggled calculating the benefits, because that is what is important to see. As an individual, you try to make the best future you can. Calls to the PPF, they could not answer questions because I was not yet a member of the PPF.

Q182 **Ruth George:** Did you get information from any other sources, from British Steel or any of them?

**Rich Caddy:** We did receive restricted information, if I recall, but not full information of what we needed to put a future plan together. The final advice I had was to go and see a financial adviser, obviously at cost to the individual, unplanned costs.

Q183 **Ruth George:** Can I ask, David, how did you source your financial adviser who you are happy with? Was that someone you were referred to or were there financial advisers put in—

**David Neilly:** For me, it was a family member and so it was quite easy, and I was offered bits of newsletters, the trustees and I had plenty of time to read and I was taking part in the Save Our Steel campaign and all that sort of stuff. We had been to London, Sheffield, Brussels. It is a difficult decision but for me personally I think it was the right decision, as long as the person that is doing it for you, you have to trust them over 100%, because this decision is not taken lightly.

Q184 **Chair:** Can I just come in there? David, given that the benefits of this scheme, if you have a fair amount of contribution, are huge, what was the attraction for you to forgo what would be a steady stream of income, and probably a fairly high one, relative to one's earnings, to go independent?

**David Neilly:** For me, when I look back at what went on, the opportunity used to be protected 2006 rights, the opportunity to retire at 50. We lost that; we lost the seven-for-ones, we have lost numerous bits of the pension along the way for modifications and it just seemed to me that it was getting smaller and smaller. Then when I saw the BSPS2 numbers that came out I thought I was going to have to end up having to work here until 60, 65 and for me that is something that was going to end up being almost 45, 50 years in the industry, so I was a bit concerned about how long I was going to have myself at the end of it, because I have seen at first hand my great mentor and fellow steelmaker, Richard Charles Davis, and he did not make it. At 65 he was gone. So I have seen this go on in the past and I thought after your length of service you have to try to get it as quickly as you possibly can. We are getting offered flexible working patterns now, so the company is facilitating people like myself, two or three days a week, if you want, and that is really what is going on.

Q185 **Chair:** So it was the worry that you would be trapped in to what is called a normal retirement age, or what used to be called a normal retirement age?



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**David Neilly:** Yes, but along that route of 40 years—I am a shift worker; I should have been on night shift last night—it does take its toll on the body, 40 or 50 years as a shift worker, and I mean proper shift work in a steel plant, people cannot comprehend what that means. There is not really a mechanism in place until this pension freedom Act came along that, wait a minute, there is a different option available to us now and that is what I am trying to realise; well, not me trying to realise it, I am leaving this in the hands of a financial adviser to make this suitability report for me and make this an option.

**Chair:** Back to Ruth. Sorry, Ruth, I interrupted.

**Ruth George:** No, I think I will probably end up going into Jack's question, which is next, if I carry on with my line of questioning. Thank you.

Q186 **Jack Breerton:** My question is really directed at Henry. A number of financial advisers, including you, have raised concerns about the advice that has been provided to members of the scheme. Could you go into a bit more detail about what the main problems are with the advice that is being provided?

**Henry Tapper:** Okay. I should point out that I am not a regulated financial adviser by the FCA. I do give advice and guidance to trustees, or my firm does.

Q187 **Chair:** Can I interrupt here? Does that mean that when you are not being regulated it means the people to whom you give the advice are not covered by the normal protection that somebody who is regulated by the FCA would be?

**Henry Tapper:** It is absolutely true, so I must not give financial advice to individuals, otherwise I am breaking the law and they are receiving advice from an unregulated adviser.

**Chair:** Right. So, back to Jack's question, sorry.

**Henry Tapper:** To your question, a lot of what I saw both on the Facebook pages and on my visit to Wales suggested that very good advice had been given, especially by local advisers. However, I also saw instances of what I would consider very poor advice and in three areas. First, at the point at which people were considering whether to choose to go in a PPF or a BPS or to take a transfer. They had a very emotional response to Tata, as David was saying. A lot of people were simply wanting out without any kind of rational decision-making going on, and a lot of advisers were allowing that kind of emotional approach to prevail without any friction whatsoever, so they were not pushing back and asking people to consider the long-term implications of what they were doing, and they were getting paid handsomely to do just that, to give that kind of proper advice.

Q188 **Chair:** Paid handsomely to do so? What do you mean by that?



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**Henry Tapper:** Typically an adviser was charging 2%, Mr Field, of the transfer value. A typical transfer value, for the people I was speaking to, was somewhere around £300,000. So for this recommendation they would typically be paid £6,000.

Q189 **Chair:** For a recommendation to go on to somebody else?

**Henry Tapper:** For a recommendation to transfer, because the way in which this works is something called conditional pricing, where you will only get paid as an IFA if a transfer goes ahead. A lot of IFAs had no mechanism for collecting fees if the recommendation was not to transfer, to go into the PPF or to go into BPS2, so there was an inbuilt bias within the advice given, and that was to transfer, and to transfer into a product from which the IFA could be paid.

Q190 **Chair:** And your worries?

**Henry Tapper:** My worries were that the advice that was given was biased towards advice to take the money away from the scheme, because that was the way in which the IFA would be paid.

Q191 **Jack Brereton:** So you are saying there was a lack of independent advice to give full information about the different options that were available for those members of the scheme?

**Henry Tapper:** There was both a lack of advice and there was no incentive to give that advice. That was the problem at outset. A second issue was about the investment advice that was given once a decision to take a transfer had been made. I will not go into a great deal of detail about this, because I do not want to create anxiety and there is already a great deal of anxiety about this. The third area—

Q192 **Chair:** Before you go on to the third area, given there is this anxiety, what measures do you propose to lessen that anxiety, what we might recommend?

**Henry Tapper:** I would like to think that where there was clear evidence that poor advice had been given and been taken and that there had been immediate loss as a result of that, for example immediate exit penalties from the products that had been purchased, that a mechanism could be put in place so that those who had been given that advice were given restitution to a position where their transfer was effectively at 100% of the amount that was paid to them.

Q193 **Jack Brereton:** How widespread do you feel this is? Do you know roughly in terms of your view what proportion of people were taking that advice and were affected about making those poor decisions?

**Henry Tapper:** I have spoken to officers of the scheme this morning and I think that the suspicion is that it is in the hundreds, not thousands, of people who have done this. That is taking the SIPP route, the self-invested personal pension invested in what I could only say were inappropriate funds.



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Q194 **Chair:** Can you tell us a little bit more, where the money is going to?

**Henry Tapper:** It is going first of all to self-invested personal pensions that are run by totally reputable organisations, and from there is being transferred into funds that have structures that enable, in some instances, the advisers to be paid a marketing fee, which is recovered if somebody leaves the fund early by what is called an early exit or early redemption penalty, and these funds are typically quite complex in terms of the structure. So there are quite a lot of people involved and when you talk to members, you find there is a lot of confusion about what they are invested in and very little clarity about what they are paying.

Q195 **Chair:** What sorts of penalties are imposed if you want to re-establish the status quo as an individual pension fund holder as a steel worker would be?

**Henry Tapper:** Typically on the funds that I have been investigating, there would be a minimum penalty of 5%. The maximum that we could see somebody losing on the particular series of funds we were looking at was as much as 10% in the first year.

Q196 **Chair:** All right, and then there is the fee of 2% anyway, or is that on top?

**Henry Tapper:** No, that is being paid out on top as an adviser charge. So these are marketing fees on the product. The adviser charge is on top, so typically what might start out as a 5% fee could end up as a 7% fee, but then there are other costs involved as well, various disbursements that could knock it up even more than that.

Q197 **Chair:** When you gave this advice, Henry, about what we might propose, which was to re-establish the old position with people, in a sense their funds made good again, who should pay the money that they have lost?

**Henry Tapper:** If that money has been found to have been paid to people who have offered poor advice then the adviser. If the money has been taken out of a contract that has been poorly disclosed then the contract manager, the operator of the funds, or possibly both.

Q198 **Chair:** That is really helpful. On Jack's question, would other people like to come in, if they would like to make comment? David, you were lucky you had a trusted family member in a position to advise you properly.

**David Neilly:** Yes.

Q199 **Chair:** What about all the others?

**Rich Caddy:** One of the issues that I had myself, I went to see an adviser that I wasn't 100% sure with, that I was comfortable with. I found another adviser because most of the recommendations are to see three advisers and find one that you feel comfortable with, and are happy with the fees. I did find one but unfortunately when I went to process the transfer they said their compliance team had closed off for any new



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clients because they were all at capacity. So I found myself having to go back—

Q200 **Chair:** Was that one of the local ones that Henry was talking about?

**Rich Caddy:** No, I am Teesside.

Q201 **Chair:** Yes, but was yours a local firm? Henry has presented a picture of a stable of financial advisers, a money marketing, helpful industry, of which now when there are large sums of money coming in from this scheme—although Ruth was reminding us beforehand people with large pension funds are being picked off anyway—was yours a local firm that you went to or was it one that buzzed in to Teesside because they knew there were a large number of people with huge sums of money?

**Rich Caddy:** No, it was one that I made contact with myself, that I had got in touch with, so I chased them.

Q202 **Chair:** They closed their doors, so to speak, because they were at capacity?

**Rich Caddy:** Yes, so what I found myself doing was going back to the first financial adviser, and the big concern then was for me trying to get the transfer through before the deadline, which was 11 December. The only reason I went back to that FA was because he said he could do that for me.

**Stefan Zaitschenko:** The main thing we have seen here that is different from normal—I mean in a normal transfer somebody will have plenty of time to think about it, to consider it, to find an FA and the FAs are available and have capacity—what we have seen here is that we have thousands, perhaps 13,000 people across the country, but clustered in small areas where the steelworks were. So the resources—

Q203 **Chair:** Stefan, sorry, can you give us that number again? The number of people who are affected?

**Stefan Zaitschenko:** I believe around 13,000 have requested their transfer values. Now, 13,000 in Scunthorpe and Teesside, South Yorkshire, South Wales, Scotland, is a huge burden on the local resources and many of the IFAs, the professional IFAs, have taken the view that they can only deal with a certain amount of clients. So the first-come, first-served came in that the people who were there first managed to find the IFAs and use the routes we have been told, FCA.org and Unbiased and so on, but then we have a lot of people found out about their options when the leaflet came through the door, their own option packs came through the door in October. At that point they were made aware that they had another choice, not just the PPF and the new scheme, but they could transfer out, even though that has been available for decades. Also, they became aware of the pension freedoms and the two things that stood out was they wanted to leave because of the mistrust going forward, they had been let down, and then the pension freedom they





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could do whatever they want. They had total control and it was that gaining of control that has been voiced many times to us.

As far as the financial advisers, what was left was a pool of people who needed to find financial advice relatively quickly and that gave an opening for possibly unprincipled advisers. Most of the people we do not know, most of the people will have received good advice and do the right thing, but obviously you have a large volume, a large pool of people who have suddenly found themselves in a position of needing financial advice up against a deadline to get their own suitability reports done, and consider the option. In the week or so before 11 December, which is when a mass of people who received their CETVs that were due to expire because a lot of them were released on 11 September when the payment was made by Tata Steel UK, that released a whole group of CETVs and then shortly after, really in less than two months, many thousands more. It was that release and the end date of 11 December that pressurised them. They already have peer pressure, saying it was the best thing since sliced bread because we have the pension freedoms. They have the pressure of the options that are unpalatable because they are putting them back with a company they do not want to be—

**Chair:** It is a brilliant explanation we have. So from you, Stefan, we have the sheer weight of numbers being put on to the market, so to speak. We have Rich who is saying that the trusted local industry was overwhelmed and shut their doors, that David was lucky in that he had a member of the family who was qualified to give advice, and we have Henry saying that in these circumstances no doubt good people came in but there were also some pretty doubtful people coming in. Very good. Andrew and then Chris.

Q204 **Andrew Bowie:** Very quickly to Rich. You said how you felt pressured in making a decision because 11 December was coming up quickly, so how did you feel when you heard that the deadline had been extended to 22 December?

**Rich Caddy:** Either way I am not 100% sure what I was doing by transferring, and the transfer was in process. It was with the trustees at that point. If it had gone through I would not have been disheartened, but I did not have the full information in front of me, which I sort of do not still have today to see what the opportunities are. As I say, it is about where I can get the best benefit to serve myself in this position.

Q205 **Andrew Bowie:** So you still do not think you have the information?

**Rich Caddy:** No, I haven't.

Q206 **Chris Green:** Thinking of lessons to be learned from the experiences of the British Steel Pension Scheme, Mr Zaitschenko, what guidance or improvements ought to have been given to these scheme members? I know there is a particular concern about advice you can get on the telephone.



**Stefan Zaitschenko:** Yes. The trustees have done everything they can. We have to be grateful to the trustees for everything that has gone before, but if I can, on 11 August all the headlines were that it was a relief to all the pensioners. They now know where they are. In fact, it was quite the opposite. 11 August was the start of all the worries. With that, it was the lack of information. We were told, "It's happening" and then the next thing we saw was we would be getting our option packs and new help lines would be set up. The help lines themselves have been wonderful for helping people make the choice of the new scheme or PPF as long as it is against the information that is in your option pack. So if they got the information, which is the same as your information, that is fine. You can qualify and clarify what is there. What has been lacking, what has been the problem, is when we ring the help line and the question we are asking they cannot answer. So we have then been referred to the Pensions Office. The Pensions Office is an extremely professional team, but they are overwhelmed by the number of requests coming in. Whether that was really a mistake in planning or perception, maybe there was no perception of the number of people that were going to need—

Q207 **Chris Green:** Did this happen all of a sudden?

**Stefan Zaitschenko:** All at the same time. So we are running a Facebook group. We have 5,100 people coming to us, but they are also channelling questions that they are hearing from people who were not there. The questions we were getting were, "I have rung the help line. They can't provide me with this. What should I do next?" and the only answer we can give them, the correct answer, is to get in touch with the Pensions Office by e-mail or telephone. I included the e-mail with the written evidence, which basically says, "We are not going to answer you". As far as the telephone, somebody made the point that did they have a record. They tried to phone 207 times before they got through, so it was very difficult to get through by phone to get the information that was needed.

For 95% possibly, although I do not know the numbers, but that kind of order I would suggest, the decision was quite straightforward and the information provided was quite straightforward. What we really need is something that deals with the 5% where it is not straightforward, where they need to be able to make the request for information and know that somebody will give them the information in a timely manner. That might not be straight away.

Q208 **Chair:** Can I just interrupt? What do you mean by "straightforward"? Do you mean that they should stay in the scheme?

**Stefan Zaitschenko:** For most pensioners, for example—

**Rich Caddy:** That is one of the confusions there. You have just said there to stay in the scheme. No, that is not right.



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**Stefan Zaitschenko:** There are two parts of the information. There are two choices here. There is the choice of staying in the scheme and move to PPF or consent to go into the new scheme. For pensioners, around 82,000 pensioners, that choice is relatively straightforward. There are some special groups where PPF will benefit over the new scheme, but very few. For most people it was a straightforward decision.

For particularly the ones who are choosing to consider the third option, transfer out, that is where the difficulty has been in getting the information. Quite rightly this exercise for the trustees has been about the choice and about splitting the assets and the members between PPF and BPS2. They are concentrating on that, and that has been very clear. That is their role.

As far as the transferring out, the transferring out has been overwhelmingly greater than expected and you can discuss that later with the other witnesses. What we know is that it has been significantly greater than was expected. Many of the questions being asked are the same questions about transferring out, but the help lines that have been set up were not set up for that. They were set up for new scheme versus PPF. As soon as you get into transferring, quite rightly they say that is not their remit. It has left us with a void and it has left people wanting answers to questions but not being able to get those answers because the resource has not been there. It could not have been. No one could know that thousands of questions are going to come in with lots of individual information.

We have discussed it and the way we thought about it is we need a service where you can go. Twofold, you can have a telephone service. We have used social media and the Facebook platforms we have used have had tremendous response and we have been able to have two-way communications. As such we have built quite a library of information and assistance from that, and counselling, not advice, just counselling.

What we also need is when the help lines for the choice of BPS2 or PPF could not answer the question, we needed them to be able to refer you to somewhere where you could raise the question and know that it would get answered. They could point you at the telephone number, but you could not get through.

**Chair:** Henry, can we bring you in on Chris's question?

**Henry Tapper:** Yes. I would like to add that one shame I think has been until quite recently that TPAS have had a dedicated help line. I think one thing we could learn is that the service that TPAS offer, which is a guidance service, is extremely sensitive to the needs of people. Those guides that they have on the phone lines and on the web chat and so on do a tremendous job. I have heard it said by a number of members that they wish they had spoken to TPAS earlier, so I think that would be the one thing I would add to what Stefan has said.



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**Chair:** Rich and David, do you have anything to add to Chris's question?

**David Neilly:** Financial services is not my thing, but what we can add from a steel industry point of view is in our profession we do numerous tasks with liquid steel, high risk. I know we manage the risk safely. We try to reduce the likelihood of these events, both for occupational and process safety. In order to do that we put layers of protection in, LOPA, and each LOPA reduces that element of risk and eliminates the failures. As I say I do not know what the financial people do, but I think there needs to be something there to help these DB transfer transitions. That would probably reduce the red flag events that we have seen occurring. That is what we are hoping for, that this Committee could help the people that have been affected by these red flag events, because at the end of the day these layers of protection do not seem robust enough. Layers of protection in our industry save lives.

Q209 **Chair:** Rich, in reply to Chris's question, can you describe a bit more? You have trusted, known, local firms, that have been swamped and therefore quite rightly have said they cannot take on any more clients. You have what could be vultures moving around in the town, and you have a date by which you have to make a decision. Can you describe a bit more how you felt when you knew the date was coming towards you, but you could not go to anybody who you knew people had for long periods of time trusted in the town?

**Rich Caddy:** On a personal note I have probably had much more time than anybody else within it, because I have been running the Facebook group for about a year and a half now. For me to be in this position I feel worse than probably a lot of the other people are. One of the big problems that I would like to point out more than anything is the clarification on who is qualified and who isn't, and their status has been a big problem.

The advice that we have been given is to look up on the FCA register to find out who is suitably qualified. Looking just recently I found somebody that is suitably qualified and I have discussed this with a few other financial advisers, and it is only when you go into certain menus and drop down boxes within there that it says "restricted". So you need some sort of degree to find a suitably qualified financial adviser. That process could be made so much easier, by me being able to look for a pension transfer specialist, put a postcode in, and then that comes up telling me who is qualified and their current status.

Q210 **Chris Green:** There is a question about the quality of data in DB schemes, so Baroness Ros Altmann, who used to have responsibility for this area said, "They do not even have the correct records for many of their members on paper, never mind on a system. Records have been lost over the years." Is this what you found in terms of the quality of the data that was found?



**Stefan Zaitschenko:** This came out because when there was lack of information in the packs, immediately there was quite a lot of concern about it. We saw an update to the website and we are using a robot checker. As soon as anything happens on the website we are informed. Most people will not have that service.

What came out on the website was, "You are not going to get any more information. This is it." When we questioned why we were not getting the information there were a number of reasons given. One of them was because a lot of the records coming through from older schemes had paper records. In fact we were told that the main thing was that the data was not in a suitable format for the transition to PPF, for example. A lot of work had to be done; 127,000—

Q211 **Chris Green:** Essentially the database for the scheme was just out of date?

**Stefan Zaitschenko:** The existing BSPS system—this is what was said at the road show I was at—the existing BSPS system and the PPF were in different formats and the exercise to prepare that data would take all the way up to almost the transfer date in March. It implied that to do anything else, to try to provide any more information now, would take it away from the priority task, which was to be ready on transfer day. So paper records, some of the complications like the added value contributions, yet some people were getting packs who seemed to be the easiest of pensioners to deal with, that they had only worked at British Steel, but for many in the 1970s, 1980s and 1990s they were getting packs saying the dates when they started were—and this is because of the historical records that were on paper.

Q212 **Chris Green:** So the records, the systems and then that deadline really conspired to put a huge challenge on to people and so the events, perhaps meeting in a pub, chicken and chips, that kind of thing, that kind of environment and people then being given advice running up to that deadline really put the entirely wrong framework, the wrong context in making these really important decisions.

**Henry Tapper:** Yes, I would agree with that and I would refer you to what Rich was saying, which is that so many people feel that they are not in a position to take an informed choice because they know that there is information outstanding.

I live with someone who runs a very large pension scheme, even larger than BSPS. This is not unusual. This is not a failing, if you like. It is just the nature of the complexity of the pensions business, which has, as we all know, a lot of layers going back. I would not want to cast blame on trustees for not having access to all this information or indeed the scheme management. It is common.

**Chris Green:** When you then look at financial advisers, as you have highlighted previously, it is then about the availability rather than the



suitability of advisers. You just have to have someone to help and advise you rather than the best person.

- Q213 **Chair:** When you say to Chris that you do not blame the trustees, is it not rather extraordinary that there are these trustees administering a scheme and they do not really know what the rights and entitlement of the members are? I am not saying they should, but they pay very handsome sums, don't they, to professionals to run the schemes for them? Only now are we finding that the records are in chaos. I come from an industry town of ship building where that is the main employer. People were not buzzing off and doing 10 other jobs, which you had to collate all together. They were in one industry and I just find it amazing that come the day people are shuffling around trying to find bits of paper in a single industry town, very largely. There aren't any other industries for people to go to, which is a sad state of affairs.

From what you have said to Chris, is one of the lessons that pension trustees now, wherever they are, should try to get the records in shape?

**Henry Tapper:** Yes, data cleansing is of critical importance, but there are huge ambiguities which still have to be cleaned up. Just take the example of GMP equalisation. It is not as simple as saying, "We have the right records". It is question of the interpretation of the records. I will not labour the point, because it is not the point of this meeting today, but it is very complicated and you have to have sympathy both with the trustees of the scheme and the administrators.

- Q214 **Chair:** I am very sympathetic about the complications Parliament has made for people running these schemes but can I also come back to the role of trustees in this? The FCA has said that they thought most people should not take their money and look after themselves, and yet there are quite a large number of people taking their money for all the good reasons that David has told us and that Rich is exploring. Given that, what is the role of the FCA when these eruptions occur, when you have pension trustees who run a scheme calmly, although we now know the records don't justify that, when they are in a totally new ball game? What are the duties of the FCA to those pension trustees who not only have a duty to individual members, but a duty to try to keep the fund solvent? If all the choice ones toddle off with the money, the scheme becomes less viable for those who in good faith make the decision to remain. Do people have comments on that, starting with Henry? Please do not worry if you haven't.

**Henry Tapper:** The PPF came out with a statement earlier this week asking the FCA to reinforce its earlier statement that the default position was to stay in. A very good IFA, Al Cunningham has a dictum, which is that when somebody comes to him and says, "Should I transfer?" he will ask them, "What makes you special?" and he puts the onus back on individuals to explain why they can beat what they are getting from the scheme. I think a simple rule of thumb issued from the FCA along those lines to advisers saying, "Can you tell us what was special about the



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individual that you advised to take this course of action?" would crystallise in advisers' minds exactly what the nature of the decision is and the long-term implications of getting that decision wrong.

**Chair:** Brilliant, thanks.

**Stefan Zaitschenko:** I tried to look at this from the point of the trustees. You can see from the point of the trustees their job is to look after the fund and the long-term viability and as far as people transferring out the FCA's duty upon them is quite clear, to make sure that the information coming in is coming from somebody who is qualified and has all the permissions.

The way I see it, it is more about the firm. That is where the problem is going to be, that the firms that are speaking face-to-face with our members is where it should be done correctly.

Q215 **Chair:** So Henry is suggesting how that might be done. It is rather a simple way, isn't it?

**Stefan Zaitschenko:** For most clients, for most financial advisers, it will be done correctly, but in this situation, again I come back to the large volume of people. In going back to Andrew's question, you asked Richard, "What was your reaction when the deadline was put back?" Most of the members were already in the process. The people who reacted to the deadline were the FAs. I spoke to a number of the FAs because they came to us and said, "Is this 22 December firm?" because it was first announced by a Tweet from a journalist, Jo Cumbo. The FAs came to us and they were very happy about it moving back to 22 December, because they were all under pressure. Once they had had the interviews and the meetings with the members, they were the ones under pressure to get the reports done for the deadlines. It is their deadline to get the submission in.

Q216 **Chair:** Stefan, what I cannot quite grasp is the role of the trustees. These schemes are based on sharing risk, so that some people will gain by that and some people will lose by that. If you open the box and say to all those who might lose by that, "Come on; jump out" the scheme is vulnerable in the longer run, isn't it?

**Stefan Zaitschenko:** Yes.

Q217 **Chair:** How do you as a pension trustee ever give proper advice here? Is it your duty to keep the scheme viable or is it to look after individuals to say, "Take the money and run" because it is in their interests to do so, knowing, by saying that, you are putting at a disadvantage all the other members of the scheme? How do we solve this dilemma?

**Stefan Zaitschenko:** As far as if you are putting a disadvantage on the remaining scheme members, surely this is the scheme actuary who should be looking at it in terms of what the transfer value should be. One of the things they did was there is a 5% reduction because of the



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insufficiency in the scheme. Now should it not be for them to say that, “If all these people transfer out, the scheme is in difficulty”, and then advise the trustees?

Q218 **Chair:** Therefore, are you saying the actuaries should in a sense fine the able bodied who are getting out, to protect those who are less able to get such a good deal outside the scheme, and that scheme then becomes weakened as a result of people leaving?

**Stefan Zaitschenko:** My apologies, sorry. We have been told all along that it is to the benefit of the scheme that people who can transfer out transfer out. That has been covered across.

Q219 **Chair:** It is in the scheme’s advantage?

**Stefan Zaitschenko:** Yes, because it reduces the risk of the unknowns of the deferred members. This is how it has been put across to the layman. I am an electrical engineer. That is how it has been put across and, when we have discussed this at the roadshows, the question was asked of a representative of the scheme actuary, “If all these people transfer out”—in fact the question was asked, “If all 42,000 could transfer out, would the scheme still be viable?” At the beginning of November I sat through three sessions and in each one we were told, “No, the scheme would not be vulnerable” by the scheme actuary.

Q220 **Chair:** Gosh, wow. I think what we have witnessed today—and Rich and David, if you want to add to this—and what we are seeing is that these great schemes are a form of collective provision. It means that it is like with the Health Service and others—these are miniature schemes like that—that, if you don’t spread risks, then the scheme can become viable. You are saying, Stefan, that on advice people were saying if how many left, 42,000 did you say?

**Stefan Zaitschenko:** We were taking it to the extreme and saying if all 42,000 could choose.

Q221 **Chair:** Then you still think the scheme would be viable?

**Stefan Zaitschenko:** The trustees will talk to you but I think they have been shocked by the number of people who have applied for transfer. In the pre-planning, what did they plan for? If they only planned for a small number of people applying, then you don’t put in the service to service all the—

Q222 **Chair:** Or the penalties.

Q223 Rich and David, here we are. This is part of the Labour culture, isn’t it, about drawing together, collective provision and so on, and yet the spotlight falls on you that it could be in your family’s best interest that you actually leave the scheme and you get advice on that. How do you feel about that when you are being torn in these two ways. Rich?

**Rich Caddy:** I will raise one point now. I have two choices from the scheme: PPF, BPS2. Those are my two tick boxes. If I go and seek





professional advice that says to me, "Well, actually, I recommend you go into BPS2. That is your best option", my choice now. It has been put back. It is 22 December but we don't know if that scheme is going to happen until January. That is one of my—

Q224 **Chair:** So you are going to jump into the dark?

**Rich Caddy:** That is what we are told we have to do, but we don't know if that scheme is happening until January. That is one of them.

Q225 **Chair:** That is brilliant, Rich. All right, David?

**David Neilly:** Yes. In lay terms, the way we see it, I see it, the way I explain it, I said, "Yes, you have this big huge piece of cake". I said, "That is £15 billion but that little slice there is mine". I said, "That is my 33 years' worth of service that I have paid for. The company has contributed. I have contributed, so when that little bit of a cake is there and, again, the great unknown about the steel industry, the cyclic movements of it, I think I will just take my wee bit of cake now".

Q226 **Chair:** Did you feel anything for the ones that were left behind, David?

**David Neilly:** I am more than happy to pay that 5% for that 92-year-old guy that I sat next to in Port Talbot two weeks ago. At the end of the day, he is in exactly the same boat as me. He has done his 40 years. He left in the slim line in the late 1970s. He was 92 and he was as bright as a button, and I was like that, "I'll have a bit of that" I said.

**Chair:** That brings us on to another aspect, doesn't it, on all of this? You have been brilliant to us this morning. Thank you so much. I am grateful to you. Thank you.

## Examination of witnesses

Witnesses: Alasdair McDiarmid, Allan Johnston and Derek Mulholland.

Q227 **Chair:** Can I thank our third panel, which has now become our second panel, because Darren Reynolds and Clive Howells have refused to come before the Committee and we have to decide what we actually do with them, which will be in the interests of pensioners and future pensioners, rather than having a lark with the Committee. Allan, might you kick off and introduce yourself? We are doubly grateful you are here early.

**Allan Johnston:** My name is Allan Johnston. I am Chairman of the British Steel Pension Scheme. I have been for a bit over 10 years. I have been on the trustee board since the early 1990s. I am a British Steel pensioner.

**Derek Mulholland:** Good morning, everyone. My name is Derek Mulholland. I am the British Steel Pension Scheme Director of Pensions. I have been with the scheme for 13 years and I am a deferred pensioner in the scheme.



**Alasdair McDiarmid:** Good morning. My name is Alasdair McDiarmid. I am Operations Director with Community, which is the largest and leading trade union in the steel industry. Among other things, my responsibilities include policy across the steel industry and part of that remit is pensions.

Q228 **Chris Stephens:** Thank you. My question is first to Alasdair. Obviously, the trade union has played a major role in the steel industry and it has had a lot of publicity around that, so it is just to ask you how the trade union has been supporting affected members and what are the main issues that the trade union has faced in relation to this whole issue?

**Alasdair McDiarmid:** Thank you for the question. It is a little strange not being on the members panel today as a representative of the steelworkers union, but I understand that is probably because we, along with the trustees, campaigned for BSPS2 to be part of the regulated apportionment arrangement.

To answer your question, and probably to start from the point of understanding that, ever since Tata acquired Corus back in 2007, they have been absolutely intent on closing the British Steel Pension Scheme. They tried it in 2009 and we were able to fight them off. They came back again in 2012 and 2015, and ultimately we had to make some very hard choices and make some sacrifices, in terms of benefits and contributions, but the scheme remained open. However, last year after March, when Tata announced they wanted to sell off or shut the UK, it became clear that, because of the weakened covenant, the scheme was going to go into the 2017 valuation with something like a £2 billion deficit. Tata were absolutely clear there was no way they were going to fund a repayment plan. Instead, they would pull the plug on the UK and let that go into insolvency and all members would go into the PPF.

We had a very detailed conversation about what to do. It was devastating for all of us to see the British Steel Pension Scheme close, after we had fought for it for so long but, ultimately, I think it is clear, and we are still of the very strong view that securing people's benefits through the regulated apportionment arrangement and BSPS2 was the right thing to do. We should also be clear that Tata did not want to do that. All of us had to fight for BSPS2. They did not want to continue to be responsible for a multi-billion pound scheme, so securing it was a very significant event and we should not lose sight, I think, that for all the difficulties we have had throughout the consultation process, that it is a good thing that people have had that choice and that should be recognised. Of course, if we had not had BSPS2 then, on the day that the RAA came into effect on 11 September, we would have been in a PPF assessment. There would be no transfers out. There would have been no BSPS2. Everyone would have had the same outcome, which would have been the PPF, which for the vast majority of people would not have been the right thing.

Therefore, we have urged our members for the last few months—since this consultation began and before—to engage fully in the consultation process, to make the most of all the information available to them, to go



to the roadshows, use the helplines, and hopefully many people have taken up that opportunity.

As our colleagues in the first panel said earlier, obviously there have been many difficulties. I won't go through them all again but, in our view, many of those would have been avoidable if the DWP had done the right thing at the beginning of this process and they had given the trustees the option of opting in to the new pension scheme all those who could be demonstrably and actuarially verified that it would be in their best interest. They did not do that. We lobbied hard for them to do that, alongside other actors but we did not get there unfortunately. Probably the main reason for that is Tata was not committed to that course of action. I don't think there is any question that Tata would like BPS2 to be as small as it possibly can be, to limit their exposure to the liabilities of that scheme. It would have been a game changer because not only would deemed consent have meant that the vast majority of the 90,000 pensioners being opted in or ending up in the right place for them, which is BPS2, we would have also freed up huge resources to concentrate efforts in getting the right support and guidance to the 40,000 deferred pensioners whose decisions were obviously a bit more difficult than they were for the vast majority of pensioners.

As of this week, I think about 30,000 pensioners still have to return their forms. The deadline has been extended but, unless something dramatic changes, 30,000 pensioners are going to end up somewhere they should not be, which is against their interests, which is in the PPF, and that is something we desperately need to avoid. Under these circumstances, Community believes that there is a very strong case for suspending this consultation, for getting the DWP and the Secretary of State back in the room, engaging with the trustees, engaging with the trade unions, and trying to work out how we find a way forward that ensures that tens of thousands of pensioners—100 or more are over 100 years old and lack the wherewithal or the ability to fully engage in this process, what do we do to ensure that these people are not ending up somewhere that they shouldn't be at the end of this process? Because this is coming down the line, it is going to happen, and I think this is going to be a major problem for the Government if we don't do something about this and we don't act now to ensure that people make the right decision for them.

**Q229 Chris Stephens:** That is very helpful, Alasdair. Obviously, as someone who was in public sector employment before I arrived here, I take the view that occupational pension is deferred pay because that is what it is through our careers. It was just to ask you, Alasdair, do you have some criticisms for DWP? Were there any meetings at all between the trade unions and the Department of Work and Pensions to try to address this issue?

**Alasdair McDiarmid:** Yes. I prefer not to disclose the details of all those meetings, but we have met with Government at the highest level on this issue. We have had numerous conversations with civil servants. It was a



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possibility for quite some time that this would be delivered. This would of course have meant that pensioners, had they wanted to do so, could still have chosen to go into the PPF but the default position would be that, if they stay where they are, they go into the BPS2 if—and only if—the trustees are absolutely certain that that would be in their interests.

Q230 **Chair:** Alasdair, what skin off the nose of the Secretary of State is it if he just changes that date and agrees with what you have asked for that the final date should be changed? That we just have an open period for a period of time. How does he lose from this?

**Alasdair McDiarmid:** How does he lose from changing the date?

**Chair:** Yes.

**Alasdair McDiarmid:** I am not saying that changing the date is the problem.

Q231 **Chair:** No. I am trying to suggest to you, Alasdair, that in fact he has nothing to lose by doing so, has he?

**Alasdair McDiarmid:** By changing the dates?

**Chair:** Yes.

**Alasdair McDiarmid:** No, he hasn't.

Q232 **Chair:** Because the more secure we get people by getting them into the right scheme, the less they will worry about the future liabilities to the state there might be later on, isn't there?

**Alasdair McDiarmid:** Yes, that is right.

**Chair:** He is coming to see us next week, I think. Before he comes to see us he will have announced, so we will get the message to him from this Committee: what loss could there be by changing that date. All right. Very good. Sorry, Chris. Yes.

**Chris Stephens:** No, that is fine.

**Chair:** The message has gone out, all right. It has beaten your Tweet, Chris.

Q233 **Chris Stephens:** Well, indeed, thank you, Frank. So 30,000 individuals have still to make a decision. Have many of them come to the trade union seeking advice?

**Alasdair McDiarmid:** I think it is a lot more than 30,000 members who are still to make their decision. We have obviously had people coming to us asking for advice and guidance. That is not something we are equipped to do, trade unions. No trade union is going to be able to give anyone any financial advice. We have been very careful in this process. I think we have gone as far as we possibly can, in terms of the guidance that we have given out. We want people to engage. We want people to make the most of the information that is there. We think defined benefit



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pensions are a good thing. We fought for defined benefit pensions for many, many years and we think that most people would be better served securing their benefits under a defined benefit arrangement, whether that be PPF or BPS2, depending on people's circumstances, than by transferring out. That is about as far as we can go. We cannot advise people to go one way or another, nor can we tell people to go to a particular financial adviser.

We have an approved financial adviser. Other unions have an approved financial adviser. That name is out there. If people wanted to use them than obviously they are very welcome to do so, and I think probably a lot of our members have done. But we cannot unfortunately give people what they really want, which is to tell them, "Go here. Go here" or "Go here".

Q234 **Chair:** Your message is very clear, thank goodness, Alasdair. Could we ask Derek and Allan Chris's question? Would you like to answer it, please?

**Allan Johnston:** From the trustees' point of view, the reason for the timings is in fact that the work has to be completed before the end of March next year. That is in order to avoid paying an RPI increase on 1 April, which would cost the scheme £200 million it cannot afford. If we start on 29 March for everything having to be completed, you work backwards to 31 January, which is when we do the viability assessment to see whether the scheme can fly. We are very confident that it will in fact fly. We have had 84,000 responses to our "Time to Choose" document, 89% of those responses have said they are going to go into BPS2. Only 11% have said they would prefer the PPF. That means that, if no other returns come in—and we expect some to come in, which is why we have extended the date—the scheme will have assets of about £8.5 billion to £9 billion, so in fact the scheme will be essentially very viable at that point.

Therefore, moving the date, as you suggest, Chair, will not really affect that position. What would affect the position, as Alasdair has said, is that for the 30,000 who have not responded we lobbied, with the trade unions and separately, the DWP at the highest level to say, "Where we absolutely know it is in the interests of an individual go into BPS2, let that be the default position". The Secretary of State told me in no uncertain terms that the default position had to be the status quo. While they might trust the British Steel Pension Scheme and the trustees and they have a very good record and so on, they really did not want to set a precedent that other schemes might use, transferring and not be as scrupulous as we have been.

Q235 **Chair:** On that basis, what is the status quo?

**Allan Johnston:** The status quo is they stay in the British Steel Pension Scheme and default into PPF on 29 March.



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Q236 **Chair:** It is hardly the status quo if you are going to end up in the PPF, is it?

**Allan Johnston:** They stay in the scheme that they are in at the moment and that is what the pensions' law currently says. That you cannot transfer people against their will, unless of course you are transferring them to something better and an actuary takes it off. But in our case it is not better. We cannot pretend it is better.

Q237 **Chair:** Derek, what would you add?

**Derek Mulholland:** The only thing I would add to what has been said is that the trustee's primary obligation, through all of this, has been to recognise that the inevitable outcome was that the scheme was going to go into the Pension Protection Fund. Given that the scheme was a relatively well-funded scheme, the trustee felt strongly that it was possible to be able to provide something better. Not to criticise what the PPF offers but it was possible to offer more, and the exercise has been geared solely towards obtaining the best possible outcome for scheme members.

It has had bumps along the road in it, and we would acknowledge it has been a huge and complex task. We talked about deemed consent. That would have helped because it would have allowed us to target resources, but I think, in terms of the discussion today, it is fair to say that the trustees started off very much with the view—the FCA and others—that, for the majority of people, transferring out was not the right thing to do. In the history of the scheme, we have always been very forthright with our communications on that point.

Q238 **Chair:** Derek, isn't a key difference that the PPF is for busted pension schemes? Yours was not busted but the industry was weak because of people selling it and doing all sorts of things with it. It was the industry that made your pension scheme vulnerable, not because you had not been good trustees and you had not got a very secure settlement.

**Allan Johnston:** That is exactly right.

Q239 **Andrew Bowie:** You have already answered my question about the reasons why you extended the time-to-choose period to 22 December. We have heard this morning that around 30,000 people are still to return their forms and take a decision. What will happen if you reach 22 December and there are still so many thousands of people outstanding who have not taken that decision yet?

**Allan Johnston:** Unfortunately, the default position is that they stay in the current British Steel Pension Scheme and move across to the PPF on 29 March. If there is no response it means PPF, and we have been trying very hard to get that message out. We are sending old-fashioned postcards to the people who haven't responded and we are putting press ads out. We are going on the radio in the local steel areas to try to encourage people. At all of our 40 roadshows we have encouraged those



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who attended the roadshow, "You will know other pensioners, won't you? Please go and knock on their door and help them to fill in the form and send it back". It is just ticking a box. It is not complicated.

Q240 **Andrew Bowie:** Why do you think 30,000 people haven't responded yet? What do you think has happened to make the process so fraught for so many people?

**Allan Johnston:** We have 18,000 pensioners over the age of 85. We have 130 over the age of 100. I know from personal experience and anecdotal evidence—I live in Wales but obviously, from the accent, I am from Scotland originally—that people have not even opened the envelope. There are stories going around, "The British Steel Pension Scheme has been good to us. We have had pensioners who have been on the books for 50 years and the money goes into the bank every month, so why should I change anything?" Of course, it is persuading people that change is necessary, "The status quo is BPS, but the BPS scheme as it stands is going into the PPF. You need to vote to go to the new scheme". That is a very difficult message to get over to an 85 year-old, a 90 year-old. Sadly, lots of our pensioners are not capable of making these sorts of decisions on their own.

Q241 **Andrew Bowie:** We have heard this morning and we have seen the evidence that some people complain that there has been inadequate information or missing information. I want to get your response to that.

**Allan Johnston:** Let's put it in perspective. We sent out 125,000 packs; 121,000 of those had total and complete information in the pack for each individual, so it was 121,000 different letters. We wanted to put in there the comparison between what you as an individual would get in BPS2 with what you would get in the Pension Protection Fund. We had to put generic information in for PPF because we couldn't put individual information in because they would not let us. The 4,000 people who say they do not have sufficient information that is because, as the Chairman pointed out, we transferred into British Steel Pension Scheme 17 separate small schemes from around the country, and some of their records were not as good as the records that we keep for the main scheme. There are one or two individuals where we have to recalculate.

One of the things that we have to do now is to introduce into everybody's file the date of 1997. Up to now that hasn't mattered and we have had to do that. There has to be a whole re-tranching exercise and a whole cleaning exercise. The 4,000 people all received a statement of their benefits last year. If they look at the "Time to Choose" document and they look at their last statement, they have sufficient information to make the choice. We are confident of that. Nobody is without information.

Q242 **Chair:** Allan, can I just say, when I said earlier about the Secretary of State changing the date, should I not withdraw that because is part of the whole deal with the safety of the industry linked to the mega pension



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question being settled by a certain date?

**Allan Johnston:** How to put it? We started out—

**Chair:** You can be rude to me, I don't mind.

**Allan Johnston:** No. That is the last thing I would do, Chair. Our only concern has been the benefit of our 130,000 members. As it happens, it all got linked with the future of the industry and so on, Tata wanting out. In the last analysis we have persuaded Tata to continue to sponsor BPS2 going forward, which I am personally delighted about. They haven't walked away and they are a proper sponsor of the scheme. If the scheme were to get into difficulties then we would be having a discussion about recovery plans and so on. From that point of view, I am very pleased that they are going to continue to sponsor the scheme.

It is a pre-condition of an RAA that—well I am preaching to the converted, I suppose—the business was going to be going into liquidation, and we all had to believe it. We took specialist advice on it. The regulator took specialist advice on it. The PPF took specialist advice on it and, without doubt, if this pension issue had not been solved the company would have gone into liquidation.

**Chair:** That is brilliant. Thanks.

Q243 **Emma Dent Coad:** To Allan to start with, I think. We heard a lot about the information and the 121,000 different letters that you have been sending out and the option packs. But people complain that there is not enough information in them. If they don't understand what is in there or if they need additional information, what is it that they do? Who has prepared the packs? Who has written them and aiming them at 85-year-olds or 100-year-olds, and what do they do if there is not enough information in them?

**Allan Johnston:** We believe there is sufficient information in each individual letter for people to make an informed choice, and we want them to make an informed choice. In order to help, we set up roadshows around the country in steel areas, of which we had 40, and about 13,000 of our people turned up to these roadshows. We set up individual helplines for deferred pensioners and separately for pensioners, and we have had many thousands of calls to those helplines. Feedback from the roadshows has been pretty positive.

I am told, but I am not an expert in this area, that when you go out to this sort of consultation, getting something of the order of 70% return, which is what we already have, is pretty good. I am not satisfied. I would like it to be 100% because it is people's livelihoods and I have been around the industry long enough to know that people do rely very much on the income from their pension scheme. We are doing everything we can but, unfortunately, it is not going to be enough. I would hazard a guess that there will probably be about 20,000 no-replies, which is really sad.





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Q244 **Emma Dent Coad:** We heard earlier that somebody called the BSPS office for additional information, and it took 207 times before they got through and then, when they did get through, the helpline did not have the information that they needed. Have you put enough effort into the helplines because, clearly, in one instance that has failed you?

**Allan Johnston:** The helplines are there for the “Time to Choose”, whether to go into BSPS2 or to remain in BSPS. They are not there to deal with transfer values. Putting some numbers around it, and obviously the numbers change on a daily basis as we have cessations from the scheme—that is a nice way of talking about deaths of pensioners—to characterise it, 95% of our members are already pensioners. They cannot transfer out so the people that we were talking about in the previous panel, there are about 40,000 deferred pensioners under normal retirement age who can transfer out. It is those people who have been seeking advice. When they went on to the helplines, the helplines correctly said, “We can’t help you because we are not here to talk about transfer values. You need to talk to the pensions office”.

We have had 12,200 people apply for a transfer-out quotation. Dealing with that massive upsurge has been almost impossible. You cannot just hire in staff to do this because it is very detailed and it has to be done correctly. To put it into perspective, there are 18 people in the administration office; 18 dealing—

Q245 **Emma Dent Coad:** But 200 times before they get an answer; whether or not they get the answer that they need, nobody is answering. What we have been hearing is that one of the most useful methods for some of the members has been to set up their own Facebook group, and they have had really good information, a library of information.

**Allan Johnston:** They have.

Q246 **Emma Dent Coad:** I wonder if you should be picking up on the ideas that actually work rather than those that don’t.

**Allan Johnston:** Yes. This is as much my fault as anybody’s but we certainly did not predict this massive upsurge. It began when the scheme closed and it took off exponentially between April and now. The reason for the—

Q247 **Chair:** Are there sufficient numbers of people answering the phone?

**Derek Mulholland:** Sorry, Chairman, if I may. The most important thing is we deal with what members are looking for, so it has been getting the quotes out to people and making the transfer payments when people ask for a transfer to be made. Initially, we had a problem. People cannot be answering the phone and doing the work that needs to be done behind the scenes, so we have brought in additional resources. We have set up a separate transfer-value hotline to try to deal with people’s concerns on this particular point. I think what Allan said is true that we did not expect the volume of transfer requests that there have been. It is also fair to say



that, while our people are working flat out with the number of calls that we are getting, even with the additional resources—we have, for example, IFAs who will phone up the office, their theory being, “If I keep phoning up the office then effectively they’ll be so fed up with me they will move my work to the top of the queue”, we have experienced an awful lot of that sort of activity that has caused problems in terms of us being able to deliver our core business—but certainly, in terms of putting additional resources in place, we have done that and we are getting through the work as efficiently as we can.

What we do have a problem with is that a lot of people who are phoning up are effectively looking for financial advice. They know they have this question. They know if they go to a financial adviser that the financial adviser will charge them for that service, and they are looking for help on transfers, which is help that we just cannot give.

**Q248 Emma Dent Coad:** I understand that. It is just actually whether or not somebody is going to pick up the phone and tell them that. It is obviously a problem. How do they get through the first time? They may not be on Facebook and be able to find the advice that people are sharing between themselves.

**Allan Johnston:** I appreciate that, yes.

**Emma Dent Coad:** It does seem like a massive failure, to be frank.

**Q249 Ruth George:** On the first panel, I think it was Rich who said quite clearly that what people wanted was information as to how much they would get. Derek, you said that under PPF you could only give generic information in the packs. Do you think that that has been a big part of the problem? That people could not actually compare what they would get under BPS2 and the PPF?

**Derek Mulholland:** In an ideal world, we would have liked to have given that traditional information. However, given the constraints that were placed upon us, we worked very, very hard with all the parties that were involved in this. We worked with the regulator. We worked with the PPF. We brought in expert communications people to help us. We wanted to make the communications as accessible as possible, and we greatly extended the packs to give generic examples of the most common circumstances. We felt, as Allan has said, that for the vast majority of people there was enough information in the packs to help them make the decision. To supplement that we also put the guidance helplines in place. We ran the roadshows and the feedback from the roadshows has been very good, and we have had a website where we have had FAQs. So I think that we have done everything that we possibly could in the circumstances. If you look back and say, “Are there things you could have done differently? Are there things you could have done better?” of course there are but we have moved to have enough to try to service our members, recognising different ages, different demographics, different levels of understanding. As Alan has said, and I think the Chairman



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alluded to, one of the beauties of a defined benefit pension scheme is you do nothing, your pension comes in to payment and you get it for life.

Q250 **Chair:** You were in another country, weren't you?

**Derek Mulholland:** Yes.

Q251 **Ruth George:** You are obviously very keen to try to make sure that everyone can make a decision that is best for them, and there is a lot of concern about the 30,000 who have not returned the forms. Presumably, the default option in most cases is unlikely to be the best option for them. Do you think that that is right, that people should have to make an active decision, many of whom may not be capable of doing that, in order to further their own interests or should the default option be the best option for the vast majority?

**Allan Johnston:** We agree. We have lobbied extremely hard with the trade unions to the DWP to make the default option the right option for individuals.

Q252 **Chair:** Which is the new scheme?

**Allan Johnston:** Which, for the vast majority of pensioners, is the new scheme. We were going to give everyone the choice as well, so people could opt but if they didn't then—

Q253 **Chair:** There has always been a need for the default position, hasn't there, ever since we have had state collective welfare on an insurance basis?

**Allan Johnston:** Yes.

Q254 **Chair:** I am sure the Committee will decide afterwards but, looking around, I would have thought we could do a special quick report on this, so we can look at that as one of our recommendations.

**Allan Johnston:** Chairman, that would be so helpful. That would be wonderful.

Q255 **Chris Green:** We have heard so much about the data and the problems with the data—whether it is missing, whether it is erroneous, not being in an electronic format, and certainly the company and the trustees bear a responsibility for that—but in terms of the trade union movement, the trade unions are there to look after the rights and interests of the workers, and particular interests, no doubt, in pensions. Is there anything that the Community union could have/should have done to ensure over the previous years, previous decades that the pension scheme was better and more fit for purpose in terms of its records and anything else you might want to comment on?

**Alasdair McDiarmid:** I think probably no is the answer to that. I am not quite sure what the union could have done to make sure that the records of the pension scheme are more up to date. Our role is to ensure that our members get the best possible benefits and to help the scheme with its



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long-term security, but we have no role at all in the administration of the scheme or how it is run. That is entirely the responsibility of the trustees.

I should add to that as well, the trustees are not just Derek and Allan sitting here. Half of the trustees are member-nominated trustees appointed by the union as well, and they will do a fantastic job.

Q256 **Chair:** Allan, on the timing of any report, if we decided after this meeting to do one, very, very quickly, how quickly do we need a report and do we need to separate—because there would be a number of recommendations that will obviously come out from our meeting today, and we could ask all those who have given evidence today what particularly they would like to see in that report if they came back to the Committee—off the role the Secretary of State could play in changing the default position, or would after Christmas be perfectly all right?

**Allan Johnston:** We would need to have a decision by 31 January because, on 31 January, we need to decide who is going into which box and, therefore, what assets are going to the Pension Protection Fund and which are not. If my prediction is true and we get 20,000 no-replies, if those 20,000 could be in the BSPS2 box we would have to know that on that day or before that day.

**Chair:** All right. If I rewind the film, the letter I write to the Secretary of State after this meeting, if the Committee agrees, is on that point.

**Allan Johnston:** That would be really helpful, sir.

Q257 **Steve McCabe:** I want to ask this of Derek in particular. We have heard a lot about IFA transfer activity in the course of this. I wonder if you could tell me how helpful and proactive the FCA were in both alerting you to these concerns and in anything else they offer by way of help with due diligence.

**Derek Mulholland:** It is fair to say that the scheme has had very little contact with the FCA. It is also fair to say that nor would we particularly expect it to have much contact. What we do is, when people submit a transfer request, we check that they have taken advice and that the person who has given them that advice is registered to provide that advice. We use the FCA website to check that registration and there have been a couple of occasions where we have had to go to the FCA, because I think the point has been made before that the website is not as clear as it might be and we have gone to the FCA for guidance on particular points.

We have had increased contact with the FCA over the last weeks and months. In particular, they have become aware of the situation. They have evidence of the concerns about IFAs. One of the points that we do need to make is that the trustees have no direct evidence of members phoning up and saying, "I have taken inappropriate advice" or "I have transferred out to the wrong place" or "Can I pay my money back in?" We



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have had none of that directly but we do acknowledge all of the points that have been made are perfectly valid.

Q258 **Chair:** You would not expect that yet, would you? If people have been taken for a ride that emerges down the road, doesn't it?

**Derek Mulholland:** That is exactly right, Chairman.

Q259 **Chair:** You would not expect any of them to have phoned up on this, would you?

**Derek Mulholland:** No.

Q260 **Chair:** But on Steve's question, which is so important, the FCA is, like me, sort of an archangel with clay feet, in that it is saying, "We think the best advice for everybody is to go into the new scheme". But it does not seem, from what you have told Steve, that they are helping you very much in achieving that objective. They can wash their hands at the end of the day and say, "Oh we told people. We gave this general advice" but, when push comes to shove, it is not just the general advice, it is the specific advice to people that is so important, isn't it?

**Derek Mulholland:** We do rely on them. We can check that people have taken advice. We can check they have taken advice from a properly authorised person. We can check that they are transferring to a properly registered pension scheme. We can warn people—and we have done—about the risks associated with transfer, and I think we have gone further than a lot of schemes would in terms of trying to flag up those risks but, ultimately, if people choose to make that decision to transfer, the law allows them to do it and I would—

**Chair:** But Steve wasn't asking that. He was asking about the FCA.

Q261 **Steve McCabe:** I accept that, and I am not at this stage trying to say you should have done this or that. There are big sums of money involved, there is speculation about people turning up outside roadshows, about unregulated introducers, about people holding breakfast sessions. I am surprised that the FCA did not pick that up. I would have thought that that was within their remit and it may have been something they would have been interested in, and I was curious to know if there was any evidence that they were interested and they made any effort to alert you. That is what I was trying to establish.

**Alasdair McDiarmid:** Since the FCA has been involved, we have been in dialogue with it and we have supported it—

Q262 **Chair:** So when it has been involved, what is the date it became involved with you, for example?

**Alasdair McDiarmid:** I think we had the first contact—I am trying to think—perhaps two months ago, something of that kind of order. Undoubtedly, it should have been involved before. I think—

**Chair:** Two months ago?



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**Alasdair McDiarmid:** I would have to check that figure.

**Allan Johnston:** I personally have not had any contact with the FCA, but they have had contact with the Glasgow office.

**Derek Mulholland:** I would say it was the beginning of November.

**Chair:** Thank you for that.

Q263 **Steve McCabe:** Can I ask one other thing, Alasdair? I don't know if you are in a position to comment on this, but there has been some speculation because of this IFA activity that it may result in some kind of legal action. Is that something you are in a position to comment on?

**Alasdair McDiarmid:** Clearly, as a responsible trade union, we will do everything in our power to protect our members' interests. There are no plans at all to pursue that avenue at the moment but, clearly, we would not take anything off the table should the need arise.

If I could just finish my previous points as well, I mean clearly there are some crooks out there, a tribute to the first panel and others who have done so much to bring it to public attention. I do think, however, that more work, more research needs to be done to try to get a full picture of what is happening out there because it is pretty unclear from our perspective. In fact over the last week, in preparation for this Committee, we surveyed all of our members across the steel industry on the issue of transfer advice, and we had more than 500 responses. The vast majority, 89%, were from deferred members or members that had transferred recently or were in the process of doing so.

Among the results from those who took transfer advice, in response to the question. "Do you believe the IFA acted with your best interests at heart?" 92% of people answered yes to that question. Those that did not cited a particular IFA that has been prominent in the news recently and/or—

Q264 **Chair:** Are those the people we invited along today?

**Alasdair McDiarmid:** They might well be.

**Chair:** That is a big surprise.

**Alasdair McDiarmid:** And/or transferred out on the basis of the pre-April 2017 actuarial assumptions, after which the transfer values rocketed. Clearly, that does mean that people are getting bad advice and that needs to be dealt with and the FCA needs to get a grip of that, but it does add some useful context I think. Clearly, these are community members that we have surveyed, and that group will have benefited from the advice and guidance that we have given them and they may be more circumspect in terms of the advices they have used.

**Allan Johnston:** I am sorry to interrupt, Alasdair, can I just put some context and some numbers on that? We put out over 12,000 quotations,



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another 800 or so are in the pipeline, so that about 13,000 out of 40,000 have asked for a quotation. Thus far, we have actioned 1,280 and there are another 500 or so being actioned as we speak. That will take out of the scheme some £760 million. It is not peanuts we are talking about here. It is a big, big issue.

As you pointed out, Chair, the vast majority of our members are long-serving members. The steel industry is a fairly well paid industry, so the size of the pension pots are substantial and we are talking 3, 4, 5, 6, £100,000 per worker with a decent service and a decent salary.

Q265 **Chair:** Mr (Inaudible PTV 11:08:59) was telling me last night those sort of figures. Even one of the people that he had met had £500,000 at stake.

**Allan Johnston:** That is absolutely right, because of the size of it and one of our clearance mechanisms, I personally have to sign off where there are pension pots of over £1 million, and I have probably signed off 20 or so of those.

The uncertainty that was around whether people would have an industry, whether people would have a job, whether people would have a pension scheme to go to, or whether they would, by definition, fall into the PPF—I for one am not knocking the PPF; I think they do an absolutely tremendous job—I think that whole uncertainty has galvanised people into the action for transferring out.

The other reason that it is so key at the moment is that the transfer values under BPS1 will be better than the transfer values under BPS2. If people are going to go, frankly, they are better going now. I don't want them to go. I am not encouraging them to go. I know of certain pension schemes who are actively encouraging this transferring out. We are not. We haven't incentivised it at all.

**Chair:** On that good note, thank you very much, and, as with the first panel, if you have further specific proposals that you would like the Committee to consider, if we decide on a quick report—I have been looking at people's faces, I have been saying things that it looks as though we will—we would love to have them quick and quickly. Thank you very, very much.

### Examination of witness

Witness: Megan Butler.

Q266 **Chair:** Welcome to you. Might you identify yourself, Megan and say where you are from?



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**Megan Butler:** Yes. I am Megan Butler. I am the Executive Director of Supervision at the Financial Conduct Authority.

Q267 **Andrew Bowie:** We heard this morning that 11 August for a lot of people was when the worries started, and yet we just heard in the previous panel that it wasn't until about a month and a half ago that the FCA reacted to events and got involved. Can you tell us why it took so long for the FCA to get involved?

**Megan Butler:** Thank you, and thank you to the Committee for inviting me along this morning.

**Chair:** We are grateful for you coming.

**Megan Butler:** Before I answer that directly, it is possibly helpful to set out what the FCA's remit is here, which I know has been a live part of this conversation.

Our role and remit with British Steel is limited to the regulation of the financial advisory community, of the issues we have talked about this morning. We do not regulate defined benefit pension schemes, such as the one that that been discussed today. Nor do we regulate the scheme administrator through this process. As such, we are not able to intervene in, speak on or indeed touch, in any meaningful regulatory sense, the agreements with the regulator or the deadlines or the structures of the pension arrangements themselves. All of that sits with the pensions' regulator, not with the Financial Conduct Authority.

Having made our remit clearer there, turning to your particular question about our particular activity about British Steel, again, if I can stand back, our work on defined benefit transfers to defined contribution schemes has been going on in a significant way all year. Our work on the ground across the country started in January and went on through the first half of the year. That led to a public statement by us in October about the sorts of issues that we see and that we have seen in the advisory community, around issues that the advisory community are seeing when providing this particularly technical piece of advice. We recognise that this advice around the transfer of pensions is perhaps the most complex piece of financial advice that is ever heard by the recipient, the client, but also provided by the adviser, which is actually why they need a particular permission to do it.

Having established that, in fact, advisers are not getting this as right as they should be, we started engaging particularly with the British Steel question, because it became obvious to us through around October that there were particular issues on the ground around British Steel. So, from October, we started talking to others on this issue. From early November, we were speaking with the pension regulator about aspects of this, because the anecdotal stories we were hearing were showing a high level of confusion about the schemes and the choices.

Q268 **Andrew Bowie:** Since then you have been visiting Port Talbot and other





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places?

**Megan Butler:** Absolutely since then, and I can give you some of the numbers now if I can.

**Andrew Bowie:** Yes.

**Megan Butler:** Standing straight back again, our knowledge, which is drawn from information provided to us by the pension regulator again, so there are 38,000 eligible members who are eligible for transfer. Of that—and I think we heard this confirmed earlier on in the evidence—12,200 have applied for a quotation around the transfer value. Of that, 2,200 transfers have been made or in fact are in progress. We think there are a little over 2,000 in progress or complete.

With that knowledge, we have then run four seminars that were earlier in November—two in Wales, two in Doncaster—aimed at the advisory community there. They were done for three key reasons. They were done, first, to remind those advisers of the standards we expect them to meet in terms of the provision of suitable advice and point out the pitfalls that we found from the early work this year; secondly, to get some specific intelligence around firms that might be acting inappropriately—and this is absolutely essential for us, we need specific intelligence around that to enable us to target firms and take action. The third piece was to take some of that targeted action, which we have since done.

Q269 **Andrew Bowie:** The FCA has obviously been very busy, but you can understand why people are quite concerned because the original deadline has already passed and we are coming up quickly to 22 December, and a lot of these advisory bodies, for want of a better phrase, have been giving bad advice for months now.

**Megan Butler:** We have 151 specialists that have come to our seminars around this. We have written to another 148 regulated advisers in this area, all of whom we know are active in this area, and this is now connected directly to the British Steel pension arrangements. We have made 10 firm visits to firms where we have had direct intelligence around concerns around the quality of their advice or whether particularly active. We have visits underway today—

Q270 **Chair:** This is the group that Andrew is after, and we are after, not the righteous who know how to behave and want to behave. It is catching the crooks. So might you answer Andrew's questions about—never mind about the seminars and all the rest of it—what you have been doing to actually get hold of the crooks.

**Megan Butler:** What we do is we visit the firms where we have the intelligence that tells us there is a problem. We heard a little bit earlier on about the sorts of questions that they would like to see us asking. Those are exactly the questions we do ask. We go in and when we see high numbers of transfers going through, we ask them expressly why it is, in the context of transfers where for most people, most of the time, staying



in a DB scheme is a better outcome, they have satisfied themselves that it is suitable in so many cases to transfer. It is exactly where we go with our line of questioning and with our file testing. As a result of this, four firms have stopped providing pensions advice as a direct result of our intervention, either by directing limitations on their permissions or by a voluntary and separate arrangement provided to us. So there are direct firms where we can see things have gone wrong, where action has been taken and they are no longer providing advice.

One key statistic here is the firms that we have in fact had direct interaction with have accounted for over three-quarters of the advice provided on the transfers made, so we have got to three-quarters of the transfers through our work.

Q271 **Chair:** Have you published this list, you know, a health warning, "Don't go to these people"?

**Megan Butler:** Those that have reached the point of a restriction on their business, yes, that is available on our website.

Q272 **Chair:** You have to go on to the website. If this happened in any of our constituencies—we have a lot of very active Members of Parliament in their constituencies—I would have expected you to have got hold of the pension fund chairman, I would have expected you to have got hold of those people who were singing, saying, "What is going wrong?" and I would have got the MPs to walk round the streets with you, knocking on doors, saying, "Who is doing what to you?" On that basis, you would have got an action plan to get hold of these cowboys. It is all very unrelated, it seems to me, to the horrors that are going on in the streets around here.

**Megan Butler:** I think you are quite right to point out that there is an important point around an action plan, but I think that is what we have been delivering. Intelligence is what we need. Intelligence is what we gathered when we went down for our seminars. We have been speaking to a number of MPs from constituencies, who have been able to bring us some intel. We have been speaking to the pension administrator. We are attempting to get lists of all of the advisers who have provided advice. We have sent out extensive information to the advisory community and indeed worked with a number of them to get the information to us. If we get that information, we can and we do act on it and we will take action against firms who are not providing advice.

Q273 **Chair:** So you went into the plants at dinnertime and talked to the men there?

**Megan Butler:** No, we have been focusing on the advisory community itself because that is the community over whom we have the capacity to intervene and directly require information. Tomorrow we are in fact going down there, along with the Pensions Regulator and TPAS to have an open public meeting to see if there is any more intelligence we can gather.

Q274 **Chair:** Did you talk to Mr Tapper?



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**Megan Butler:** We have been in touch with Mr Tapper and Mr Tapper has been in touch with us, yes.

**Chair:** Which came first? You approached him or he approached you?

**Megan Butler:** I think Mr Tapper approached us.

Q275 **Steve McCabe:** This strikes me as a fairly rich area for the unscrupulous. Once these four people cease this activity, what else happens? Is there any attempt to recover the money they have made, is there any way of making sure they cannot set up in a new forum? I am not accusing you or anything, but, "Do not do it any more" sounds like a rather gentle tap of the wrist to me. It does not sound like there is any great disincentive for just setting up somewhere else. What else can be done to make sure it is a wee bit more clear that that is how it is going to function.

**Megan Butler:** What we have been very focused on over the last month or so is making sure we can cauterise the immediate harm. That is really what we have been focused on and that is what the activity of my team has been. That is not the end of this story. If there are people who have found themselves in schemes where it was on the back of unsuitable advice, they may well be entitled to compensation. That is phase two of this process, and there will be a phase two. In appropriate circumstances people will find themselves referred for enforcement action and further activity.

Q276 **Chair:** They will only get compensation if they are regulated, won't they?

**Megan Butler:** Yes, if it is in the context of unsuitable finance advice.

**Chair:** The chances are some of these are not regulated.

**Megan Butler:** Everybody who has to make a transfer has to receive regulated advice as part of that process before that can have happened. That regulated advice has to be suitable, irrespective of how the introduction happened. That is a key protection here that is in the statute, in fact.

Q277 **Jack Brereton:** In terms of the bad advice that is being given by some of these organisations, particularly as well if we look to our no-shows today, Celtic Wealth Management, they are unregulated by the FCA. Do you think more should be done to ensure that these organisations, these companies, are compelled to be regulated by the FCA?

**Megan Butler:** The way the structure works at the moment is the second you stray over that line into advice, you have to be regulated. The key thing with Celtic and indeed the other introducers that we are aware of is to make sure that they stay absolutely firmly and clearly away from that line, which is the provision of advice. If they do that, there is a limit to the amount of harm they can do, because it has to get—

Q278 **Jack Brereton:** That clearly is not the case, so what action is going to be taken to ensure that those organisations who have gone over that line,



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that there are repercussions for that?

**Megan Butler:** There are repercussions for that. If they cross over into the provision of advice that should be regulated, they are committing an offence. There is in fact one live in the courts at the moment, that I cannot talk about, around an unregulated introducer. The case is around whether or not it strayed over the line. I cannot talk about that because it is a live case in the courts, but that is the type of action we taken in a general sense if someone crosses that line. We have an entire team dedicated to seeing where are firms who do cross that line, and take action.

The key point is if an introducer stays clearly on the right side of that line, one way or the other the advice has to come from a regulated adviser, at which point it is suitable, at which point they get the protection of the FSCS and the ombudsman service and all of those other things available for consumers.

Q279 **Chair:** Let's stay on this point. Here we have dodgy introducers, probably linking up with dodgy advisors, because what is the role of this introducer, who is going to get a cut from all of this? We have very clever clerks who service our Committee and they have looked for your four firms and cannot find them. Might you tell us now, on the record so we can get it out there to people, what are the four firms that already you are saying, "Do not shop with these people"?

**Megan Butler:** I do not have the total list of names and I do not want to give you an inadequate list. I will write and confirm that for you before the end of today.

Q280 **Chair:** That is a pity, because I bet some steelworkers who are watching this would like it. What we would also like are your suggestions of which are the ones you are investigating, and therefore, while your investigations are going on, people should not touch. Might we have that list by the end of the day?

**Megan Butler:** No, I am unable to disclose the names of any individual firm where there is ongoing work.

**Chair:** That is a huge area for us, isn't it, to come back to? It is like the police saying, "We are investigating people for murder but in the meantime I cannot tell you who is it. We are not going to charge them and they are free to go about their business".

Q281 **Andrew Bowie:** I want to come back very quickly before I go on to my second question. You talked about the teams that are investigating. How many people do you have working on these teams?

**Megan Butler:** On the British Steel issue itself?

**Andrew Bowie:** Yes.

**Megan Butler:** I have a team of eight who are visiting firms and a base here in London who are visiting today out in South Wales. I also have a



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separate team of I think 12 who look particularly at pension scams and they are directly involved in looking at aspects of this as well.

Q282 **Andrew Bowie:** There is a high-level debate going on just now, whether it is sausage and chips or whether it is chicken and chips, but we have heard and seen in the press stories about firms touting for business outside official seminars by offering sausage and chips in return for people coming along and getting advice. What is the FCA's view of that action?

**Megan Butler:** I think we expect all financial advisers to meet our basic principles for business, which means they are expected to act with integrity, act with due care and skill, to manage appropriately conflicts of interest that can arise. All of these kinds of activities can call into question compliance with those principles and indeed our basic expectations, the provision of suitable financial advice.

Q283 **Andrew Bowie:** You cannot compel them to stay within an official seminar, they are still allowed to go and do stuff outside? You would not have any jurisdiction over preventing them from doing that?

**Megan Butler:** If you are talking about the unregulated introducers, none.

**Jack Brereton:** You do not?

**Megan Butler:** No.

Q284 **Chair:** Megan, I am really shocked that you do not know those four firms. Chris has a question, which we will stretch out for a bit. You are Director of Supervision of the FCA and you do not know these four firms that are ripping people off, that is the whole point of our inquiry, which is pretty weird to put it mildly. Hopefully they will be watching. Might they text you, somebody there in your firm, with the four names so you can read them on to the record for us?

**Megan Butler:** I can certainly read them on to the record, I would imagine.

Q285 **Chair:** Is somebody there with them? Marvellous. Would they like to come and join that panel?

**Megan Butler:** I have a colleague from the FCA and we can probably find the information if you wish me to do that.

**Chair:** Might the panel of support staff now decide who is going to come and sit next to Megan, while we ask our last question, so we can keep this session going? You are going to read them into the record so it is public knowledge.

Q286 **Chris Stephens:** I have two questions, Megan. The first question I have for you is what would you say to the point we had earlier on, I think it was in the first panel from Rich, which was when he tried to use the FCA register to try to find a qualified pension transfer specialist, he found that



list to be completely and utterly unusable.

**Megan Butler:** Yes, that was very disappointing to hear. I am going to have to take that away and think about that. We do not want our register to be inaccessible. The point of it is so that people can get into it and use it. I am glad he did find the restriction when he went through. I was pleased to hear—we will take that away and have a look at that because the point of the register, that is our public record to disclose exactly the sorts of things the Chair is discussing here. The names are there. They should be findable, the restrictions should be findable. We will go back and see if there is more that we can do.

**Chair:** We do not want you to go back. We have your four staff working, we hope, magic. We want to keep on air until we get these names. Again, it is alarming, isn't it? The cameras, quite rightly, will not be on the four members of staff. They are shuffling about with bits of paper, using modern technology. No wonder these people in the scheme are vulnerable.

If you could ask your second question very slowly, Chris.

Q287 **Chris Stephens:** No problem, I will be as slow as I can. Obviously there is an appetite out there to transfer out of defined benefit schemes, yet the Financial Conduct Authority line and advice has been that most customers would be best advised not to do so. What more should be done to protect consumers from making decisions that would be against their best interests?

**Megan Butler:** Our focus in this—and it comes back to the heart of what we are talking about here today—is to ensure that the regulated advisers—and they are obliged, they must take regulated advice before this decision is made—that that regulated advice is of the best quality that it can be, and suitable for the individual. It is a highly complex piece. One of the key things I would call out that goes wrong here is a split between the advice on, “Should I transfer”, based on what will feel like a huge transfer value, and the other side of this, which is the destination of those funds. The key piece here is often those two are too separate, and you cannot make an appropriate decision or provide suitable advice on whether a transfer should be made without an understanding, not only an in-depth understanding of the individual but the destination of those funds. It is absolutely central to the two halves of that piece of advice. That is one of the key things that goes wrong.

Q288 **Chair:** We have a result. Megan, the names, please, to Chris's question and Andrew's question.

**Megan Butler:** The first name is Active Wealth. The second name is Pembrokeshire Mortgage Centre Limited. The third name is Mansion Park. There is one more, it is yet to be published.

Q289 **Chair:** Why can you not publish it?



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**Megan Butler:** Before any restriction on a register goes through, due process has to be followed. It means that there is a process.

**Chair:** You said there were four and it is now three?

**Megan Butler:** There is one that is in a process. Coming back to what we are doing on the ground, this is a live piece of work for us.

Q290 **Chair:** I know but we are looking at what we thought was your record and now four becomes three. It is like that Christmas ditty, isn't it?

**Megan Butler:** Forgive me, I think it is a timing question.

Q291 **Chair:** Before we ask other people who want to ask questions, Megan, normally there are firms set up to try to get the better of us by training witnesses. Did you have any training for this session or not?

**Megan Butler:** In the sense of I spoke to my team, I am aware of what my team is doing on the ground.

Q292 **Chair:** All I am saying is if you had one of these firms who is supposed to be able to spot all our questions, not to have the four names, now three names, you ought to be able to sue them for the briefing that you got. When are we going to get the fourth name? Then you say there is another lot that is being investigated as well. This is a treacherous area for pensioners, isn't it, and potential pensioners, with their funds up to £1 million?

**Megan Butler:** It is a difficult area.

**Chair:** You are set up by Parliament to protect and ensure that people are not trapped and tricked out of their wealth. You kindly gave people a timetable when you really started work on this, even though things were happening long, long before that. You make the Pensions Regulator look as though it has been eating cans of spinach, in comparison, because we have real worries about the Pensions Regulator.

Q293 **Steve McCabe:** I very quickly want to go back to these people, these touts with their sausage and chips or the chicken and chips. I understood the point you made that if they are unregulated you cannot do anything about that. Would you say we need some kind of change in the law, and what is the situation if they are unregulated but you can demonstrate there is a connection between them and a regulated adviser? Is there is something you can do then or do we need some change in the law to deal with these people? They sound like the equivalent of timeshare touts to me. I cannot understand how it can happen on the streets of the UK and nothing can happen about it. I understand your point about if they are unregulated, but what would you suggest would be the best way forward?

**Megan Butler:** The change to the law I think is probably a matter for Parliament. We work with the law that is provided to us. I would come back to whatever the behaviour of the unregulated introducer, there has to be regulated advice. That brings them straight within the remit of the regulator, straight within the remit of the ombudsman scheme, straight



within the remit of FSCS. That is central to the way this works. There is protection at the later stage before the decision gets taken. There is extensive protection there.

**Q294 Steve McCabe:** Have your investigations uncovered this activity? Is it going to figure in your report, if there is going to be some greater focus on this happening and what we should—rightly, if the law changes, that is for Parliament, but will we be receiving advice on what might be necessary to curtail this kind of activity?

**Megan Butler:** The key I think here, and it comes back to an earlier question, is about—you made the point about the connection with the regulated community and sometimes an inappropriate connection between those two. The key point here is we do expect the regulated end of this community to manage their conflict of interest. There are clear points of conflict of interest that can arise down this chain, from the unregulated introducer to the adviser to the SIPP operator to the end fund. That needs to be very clear to the client, if there is any connection, and very clear on any costs associated or fees charged through it.

There is inherent conflict of interest that really needs to be well managed through all of this. We heard a little bit earlier about the contingent fee structures that tend to arise here. That gives rise to an inherent conflict around the provision of advice and that is why we do need to come in very carefully and make sure those firms are overwhelmingly aware of that possibility for conflict and managing it really, really carefully.

**Q295 Ruth George:** On the subject of fees, with the average fee for about a £500,000 pension pot being around £1,800 up front. Obviously the Finance Act has just put a little bit towards that, but do you think those upfront fees act as a disincentive for people to take regulated financial advice and thereby an incentive to go to those firms that might benefit from the transfers by making substantial charges from them and get their money in that way instead?

**Megan Butler:** The first point I would make is you have to take regulated advice before you transfer. You cannot not, so they are going to find themselves in that space anyway. They cannot be deterred by the fee from taking that advice. That has to be done and that has to be confirmed to the administrator before they can transfer. That has to happen.

The context of the fees and charges—and this is not just the fee and charge or charge from the adviser, it is that chain I just described—is a really important piece of whether or not the advice is itself suitable. If there are lots of people taking lots of money out of that chain, that can clearly influence whether or not the choice being offered is suitable.

That is not just upfront, because one of the issues we do find is not just the upfront charge, it is the ongoing charges that you can find in some of the funds in which people find themselves invested. That is absolutely





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central to the suitability of that as an offering in the first instance. It is something we look at, it is something we make sure we investigate, it is something we challenge firms on.

Q296 **Jack Brereton:** In terms of this unsuitable advice that is being given, and obviously we found out that there are some significant issues there, I am interested in your views on what you think more could be done in terms of legislation. You have said it is the role of Parliament to legislate, but I want to know what you think in terms of what we should be doing to ensure that more action can be taken to catch these people who are giving this bad advice.

**Megan Butler:** In terms of catching people giving bad advice, there is a regime in place at the moment. That is the regime we are enforcing at the moment. That is the basis for the work we are doing and the action we are taking on the firms now. We have a full-blown regime—

**Jack Brereton:** You think it is perfect.

**Megan Butler:** Nothing is ever perfect, I guess. In terms of the regime around the provision of advice, there is a regime, there is a requirement for regulated advice, there is a regime to protect clients when they seek that advice, and that goes all the way through to a compensation arrangement and scheme if it turns out that advice is unsuitable. That is all there and exists at the moment.

Q297 **Chair:** On Jack's point, Megan, we know that there is a huge amount of money at play here. We know even if they are regulated some of them are far less good than others. To what extent is your police force, whatever you call them, concentrating on those firms that are in business to give advice to those who have large sums of money they transfer out of the British Steel Scheme?

**Megan Butler:** In the context of the British Steel Scheme, I mentioned the numbers earlier. I have a team of eight people as supervisors who at the moment are focused entirely on ensuring that we are visiting as many of the firms as possible who are acting in the area, the provision of advice on British Steel at the moment and they are doing that today.

Q298 **Chair:** How many firms are they investigating?

**Megan Butler:** At the moment?

**Chair:** Yes, those eight people?

**Megan Butler:** At the moment we have visited 10 firms. We are looking at files from an additional four. We have three further firms we are visiting over the course of the next few days.

**Chair:** About two each?

**Megan Butler:** I am not sure it works quite like that, but yes.

**Chair:** I told the Committee today—and I only bring this up now not to



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tell you what I told the Committee—about how organisations behave and how morale is maintained. The Committee has had a huge success with the Government changing how it is administrating a whole area of policy. That is important for us. We are all clear what it is and it has raised our morale.

Here is the FCA that has a specific job. You would not have seen it, Megan, but there was mega movement of paper going around, consulting phones, to get the list of four that then became three. I cannot imagine an organisation where everybody in that firm did not know, “We are on our way, we are really achieving something, here are the four, now three, that are named. We have a real purpose in life, we are achieving something”. Yet you and your team did not have any of this. I want you to take it away. I think there is something desperately wrong at the centre of the FCA that it operates like that and that morale is not maintained, that you are not shouting it from the housetop. It is a real achievement you got hold of three of them and it was wonderful that you read it into the record for us. But it raises questions about the FCA.

I am really grateful to you for coming, unlike two other witnesses who we have drawn attention to. Thank you very much.