HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Collective defined contribution pension schemes, HC 580

Wednesday 14 March 2018

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Watch the meeting

Members present: Frank Field (Chair); Jack Brereton; Alex Burghart, Emma Dent Coad; Ruth George, Steve McCabe, Nigel Mills, Chris Stephens.

Questions 57-152

Witnesses

I: Philip Bennett, former partner, Slaughter and May; Dr Alwin Oerlemans, Head of Pension Strategy, APG; Janice Turner, co-chair, Association of Member Nominated Trustees; and Kevin Wesbroom, Senior Partner, Aon.

II: Guy Opperman, Minister for Pensions and Financial Inclusion, DWP; Ronan O'Connor, Deputy Director, Private Pensions Policy, DWP.

Written evidence from witnesses:

Phillip Bennett

Dr Alwin Oerlemans

Janice Turner

Kevin Wesbroom

Department for Work and Pensions

Examination of witnesses

Phillip Bennett, former partner, Slaughter and May; Dr Alwin Oerlemans, Head of Pension Strategy, APG; Janice Turner, co-chair, Association of Member Nominated Trustees; and Kevin Wesbroom, Senior Partner, Aon.

Q57 **Chair:** Welcome. Philip, might I begin with you, asking you to identify yourself for the sake of the record? We will go down the table and then we will begin with our questions.

Philip Bennett: Thank you for inviting me to appear before you. My name is Philip Bennett. I was a partner in Slaughter and May until the end of last year. Before that I spent the last 30 years advising employers and trustees on pension-related matters. I am a past chair of the Association of Pension Lawyers Legislative and Parliamentary Sub-Committee, past chair of the International Pension Employee Benefits Lawyers Association and I have had a keen interest in CDC schemes for a number of years.

Chair: Very interesting.

Dr Oerlemans: My name is Alwin Oerlemans. I am Head of Pension strategy at APG, which is a Dutch pension delivery organisation. I have been involved in pension design, risk management and asset management for the last 15 years. I am very honoured to be here.

Janice Turner: My name is Janice Turner and I would also like to thank you for inviting me to be here today. I am the founding co-chair of the Association of Member Nominated Trustees, which is an organisation that was set up in 2010 and now has more than 700 members from about 500 pension schemes with collective assets of about £0.75 trillion.

Chair: So a small business.

Janice Turner: It is not our money.

Kevin Wesbroom: Good morning. Kevin Wesbroom from Aon. I have been an actuary and a pensions consultant for the last 42 years. I have been a CDC fan from its start and remain an unabashed fan of CDC.

Q58 **Alex Burghart:** Good morning, everyone. Thank you very much for joining us. I apologise in advance for the fact that I have to leave early. It is not a sign that you have said anything to offend me.

We have been told that the Dutch pension system is one of the best in the world and we wonder how CDC might have contributed to this success.

Dr Oerlemans: Thank you. The high ranking of the Dutch pension system is due to its strength in adequacy, sustainability and integrity, if I look at the Melbourne Mercer Global Pension Index, as you rightly point out. Contribution levels are important in this respect to get to a sufficient replacement rate, but it is particularly the risk sharing that is at the heart of CDC, which is one of the key elements. This concerns risk sharing with regard to mortality and longevity risks, also operational risks concerning the pension delivery, but most of all sharing the risk of investment return. Collectives—in the Netherlands pension funds are collectives—really allowed individuals to mitigate these risks. For an individual, it is very difficult to understand the risk or to be exposed to the volatility of investment risks and this risk sharing of investment risk helps to mitigate this.

You asked about the success of the system. I believe the collective approach also helped pension funds to build large diversified investment portfolios, which also enabled them to include illiquid investments like infrastructure, but it also allowed individuals, the participants in the fund, to get access to the institutional pricing of those portfolios.

The risk sharing of CDC has always been a very important part of the system. In the Netherlands the two main types of pension funds are industry-wide funds and corporate funds. In the 2000s, after the worst of dotcom crisis in the early 2000s, rating agencies, but also corporates, became much more aware of the risks in the pension funds, basically the risks on their balance sheets, because basically corporates had the open-ended liability of these defined benefit obligations. Then they decided to think about ways to mitigate this risk for the corporates and at the same time keep the benefits of this collective risk sharing for the participants.

Then you saw the development of CDC also on the corporate side, where the corporates did not have the open-ended liability of the pension obligation, but at the same time the participants as a group remained or continued sharing the risks, not only of mortality, longevity and operational risks, but particularly also the investment risks.

For corporates it is also—

Q59 **Chair:** Before you go on, because Alex has another very important series of questions to ask you, when you say about the advantages of it, if one invested one unit individually outside of a corporate scheme and one unit within the corporate scheme, what would be the returns on that one unit, given that other things were equal, maybe the same individual buying the one unit? How much more, if any?

Dr Oerlemans: I think 1% of costs or 1% of less return will have an impact of around 20%.

Q60 **Chair:** No, sorry, I meant if I was investing and I put half my money in the ordinary individually-owned schemes and half in the corporate schemes, what would be the difference at the end of my working life from making that decision from when I started to pay in for my pension schemes?

Dr Oerlemans: I would say that the returns of pension schemes over the last decade have been around 7% plus or even higher. I think those are returns that are very hard to get in an individual product. Of course it very much depends on the design of the product. In the Netherlands, when I look at pensions, most products are in a collective setting, where these returns are very high compared to the returns on individual products.

Q61 **Chair:** If I was an individual who decided, "No, I am going to have none of this nonsense. My pension is going to be totally run by me with however the supplier decides to advise me" and I end up with 100 units, how many units would I get if I had not been so—maybe I was very wise; I must not judge the issue—and we were in something that—

Kevin Wesbroom: One of the answers to that would be some of the modelling that we did in the previous incarnation of CDC. We showed that a collective investment would outperform an individual investment by about one third. That was a number that was backdated—

Q62 **Chair:** I would get 133 units back?

Kevin Wesbroom: Yes. Your income would be about one third higher. That was against the background that if you were an individual, at that time your main option would have been to turn your pension pot into an income by buying an annuity. In effect, that one third uplift is because collectively we can invest for the scheme, whereas an individual, you have to run for the certainty that sits behind buying an annuity, so you invest in lower-returning assets sooner in the process. In the days of freedom and choice, you have to ask the question, "What will individuals do if they do not have to buy an annuity?" and the information at the moment is that numbers of annuities are reducing, so that excess outperformance is probably lower. But you have to answer the question, "What are people going to do to spend their DC pots?" and I think CDC has a role to play in that as well.

Q63 **Chair:** Alwin, does that one third better return match the Dutch or are yours even better?

Dr Oerlemans: I would say that the difference would be bigger even, because I would see benefits in the portfolio, given the same level of risk. That will provide benefits, then if so, when there is a difference in risk appetite, that would really deteriorate the outcome, but I would emphasise the difference in costs and then also the 1% difference in costs would mean a 20% difference in pension income. So I think it could be even worse.

Q64 **Chair:** Kevin has given us the figure of £133 on my £100. Any advance on that?

Alex Burghart: Do you want to declare a personal interest?

Chair: No, I have already done my stuff.

Dr Oerlemans: It is very hard to give a precise figure because it is so dependent on the horizon—

Q65 **Chair:** A general figure, if it cannot be precise?

Dr Oerlemans: No, but I think one third or a half, in that area.

Chair: That area; brilliant of you.

Dr Oerlemans: It is very substantial.

Q66 **Nigel Mills:** Can I ask Kevin, on this one third that he modelled, how much of that third is because a collective scheme is more efficient and therefore less costly to run? How much is because you can get better investment returns or you can have a different risk on something and how much is because those that die young effectively pay for those that live longer? Where is the magic that gets you that?

Kevin Wesbroom: All of the above. Our modelling at the time was not looking at the lower cost of the collective scheme. It did not factor that in. It did not factor in the superior investment actions that Alwin described about investing in infrastructure and so forth. It was simply saying that if you continued to invest in the stock market during retirement, rather than buying an annuity, you would have a material advantage in terms of the level of income that you could generate.

Q67 **Chair:** But you are saying, are you not, that very fundamental to this is Churchill's wonderful phrase, "the magic of averages"?

Kevin Wesbroom: It is. It is investing across a group of people you can get a better outcome that any one individual can do on their own, because that one individual has only one experience to base it on and they will have to do something that suits their circumstances, whereas across a group of 1,000, 10,000, 140,000 people, you can take a bigger, longer-term perspective and get a better outcome, on average, for everybody.

Chair: We do have individual questions for all of you, so do not worry. Alex.

Q68 **Alex Burghart:** Janice and Philip, is there anything you would like to comment on at this stage?

Dr Oerlemans: Maybe one addition. I think it is not only the average that counts, it is also the volatility on the individual level, because if you have an individual investment, it could be a huge array of outcomes, depending on the cycle of the economy and financial markets while you have been working or building up that pension. It is not only the average that matters, but also the volatility for individuals that you would like to address in CDCs.

Chair: Alex is going to come in on that very point.

Alex Burghart: Janice and Philip, is there anything you would like to come in on?

Janice Turner: That is fine.

Philip Bennett: On the investment side, I will defer to the investment experts, thank you.

Q69 **Alex Burghart:** Alwin, you touched on this a moment ago. We understand that CDCs faced some challenges during the recession in 2008 and 2009. How was this addressed and what lessons do you think we can learn?

Dr Oerlemans: The impact of the financial crisis, the dotcom crisis and also the financial crisis was also felt in these diversified portfolios. A number of lessons have been drawn and these concern being more explicit about the risk appetite in the portfolio. That has also been included in legislation, so both the social partners and the pension funds, they make this explicit so a participant in a fund can understand what the risk appetite is like.

Another element is communication. In the last 10 to 15 years, I think that communication with regard to the ambition, with regard to the pension income has had a lot of attention and then it concerns communicating about the level of indexation. Pension funds are now required to be explicit on that ambition with regard to indexation and you can say that it is only an ambition, but you can also say, "I want to index fully with price".

A third element is improvements in pension fund governance. These include more emphasis on risk management and checks and balances and also more emphasis on internal supervision. There is also a lot of attention to board quality, the capability and the expert knowledge within pension fund boards. That also helped to improve the quality of the boards.

Q70 **Chair:** As our Pensions Minister has arrived, the one key thing our Pensions Minister should know, our opening question was asking how much better off might I be in retirement had I gone for the Mrs Thatcher model, "I am going to do it all myself" or what we hope might be the Mrs May model, that we would have the scheme that we are discussing now. The replies, Guy, were that I could be better off between 130% to 150% better off. We are now on to this whole business about how do these individual schemes stand up to shock and Alwin was looking at his experience of learning from one, the dotcom bust, compared with the mega smash-up in 2008. That is where we are in the debate. Thank you for coming to listen prior to your own evidence.

Kevin Wesbroom: Can I add to that, an observation about the Dutch system and how it coped with the 2008 crisis? It seemed to me that there were two types of schemes that were criticised for what they did in response to that crisis. The first type of scheme was the sort that cut pensions. On average, it was a 2% cut. If not, you would lose half your pension. Some of the schemes were criticised for that, which is slightly wrong because that is an essential part of it. The other schemes were the ones that did not cut benefits and they were criticised just as much, because they probably should have done. The reason they did not was that they did not want to upset the older population, so effectively they transferred the risk to the younger population.

That is a really central part of the governance and operation of CDCs and one of the reasons why we have suggested that all of the information about CDC schemes should be in the public domain, it should be published on the regulator's website and anybody can see if a scheme is doing what it said it would do. If you said, "When bad circumstances arise, we will cut pensions" and you do not, why is that? What is going on behind that? That would all be visible to any pension commentator who wanted to pick up and challenge what the trustees in that case had done.

Q71 **Chair:** It is a bit unfair, Kevin, isn't it, because people of more mature years—let's put it that way, before Alex reminds everybody of my age—we grew up in a world where we expected things to get better every year over the previous year. Therefore if I was running a pension scheme, I would never have thought about putting anything in the small print that, "Maybe we will have to cut your pension" because the expectation was that it was going to go up, like house prices.

Kevin Wesbroom: Yes, you do not set out with an expectation of having to cut, but the ability to do that is one of the safety valves in the system. Our modelling showed that cuts do happen. They were fairly rare, three times in 80 years, and two of those were after world wars, so arguably it was relatively extreme circumstances, but you do have to have it there, an essential safety-valve mechanism, to make the arithmetic work.

Chair: Back to Alex.

Q72 **Alex Burghart:** Philip, might I ask you about how the Government could potentially set up a legislative framework for CDC with the minimum of parliamentary fuss?

Philip Bennett: Thank you for that question. My first recommendation to you is that you should have the structure as an occupational pension scheme rather than a personal pension scheme, so regulated by the pensions regulator and not by the FCA PRA.

The second recommendation is that it should be set up under trusts, so a not-for-profit model, governed by a board of trustees. That would be my second recommendation to you in terms of how you go down your possible legislative alternatives.

Within the pensions legislation framework, which regulates occupational schemes set up under trusts, with the pensions regulator you have a choice. Do I bring the collective benefits provisions in the Pensions Schemes Act 2015 into force—a lot of hard work, a lot of thought on that—or do you say a third legislative way is quite fiddly to—

Chair: We understand.

Philip Bennett: If I could then skip to my recommendation, which is that I think you should work within the current framework, which is binary. You have two pigeonholes, defined benefit and DC, defined contribution or money purchase, and I think that a CDC scheme has a key feature from the employer's perspective: you pay your money in, but you do not get asked to underwrite any shortfalls, so that tells me it is money purchase, not defined benefit.

Having gone down the money purchase route, I then say to myself, "What do I have to do to the money purchase legislation to make it work for a collective money purchase or collective DC scheme?" and I start by saying, "I have to amend a definition"—I will not trouble you with the detail because you will get bored—but you have to amend the definition. You have power in the Pensions Act 2011 to do that by secondary legislation. The key to the amendment is that the assets and the claims on the assets are benefit obligations and target benefit obligations will always be in balance, because you have to adjust your target aspirations to reflect the asset value. That is why it looks like a money purchase, it is just a collective money purchase, so that is where it gets you in terms of a regulatory starting framework. Then there is some stuff you have to add on. Beyond that, let me stop there and you can ask me questions.

Alex Burghart: That was extremely clear. Thank you very much.

Q73 **Chair:** Can I ask, would you take that section of the 2011 Act and amend it for us? Because we are in the business now of doing amendments and writing to the Cabinet Legislative Committee asking for time. Only if we think we have won the argument; obviously the Minister may have a different view and we may be persuaded in our second session. Would you do that for us, Philip?

Philip Bennett: I will have a go. It would be a bit high level, so not going into all the detail, but effectively there are two limbs to the current definition. The first is that your benefits derive directly from contributions paid and the second is that the assets and the claims on the assets—the pots—must always balance what you owe the member. The second bit is okay. You do not really need to amend that. The first bit, you will need to say directly or indirectly, so adding, in simple terms, the word "indirect". So from the contributions your benefits derive directly—or add in "indirectly"—from the money that has gone in. That is the first thing I would do if I was drafting.

The second thing I would say is that employers are looking at this and saying, "We are going into the money purchase pigeonhole; we want certainty that we are not going to be asked to pay more in the future". How do we confer certainty? One way to confer certainty would be, for example, to say that to be in the second world, the collective money purchase world, perhaps the pensions regulator might be asked to approve the scheme as a collective money purchase scheme. If he gives that approval, then the legislation would say you are money purchase, and by saying that in the legislation, you then have moved the risk away from the employer and the judges cannot reinterpret because the legislation is very clear. That would be my suggestion if you want to get into bit of detail in that area.

Chair: That would be brilliant. Thank you.

Q74 **Chris Stephens:** What is the mechanism to allow people to transfer out of a CDC without what we would call gaming the system to the detriment of the remaining members?

Kevin Wesbroom: The first point to note is that there would be mechanisms for transferring out. You are not locked into a CDC scheme, as some people have suggested. The process would be to come up with a fair share of the fund, balancing the interests of the member who is leaving with the members who are remaining. Using Philip's analogy, we know that at any point in time the assets in the scheme equal the target benefit that we are going to provide, so when a member asks to transfer out, you work out what those assets would be able to support by way of target benefits. That is a complicated actuarial sum, but our computers have become bigger and faster and we can do that sort of stuff in real time. Having worked out what the target benefits are, if you pay out the leaving member on that basis, he or she has a fair share of the fund and has not taken more or less than was needed to protect the remaining members. So there are mechanisms to give a fair share for the leaver that balances the interests of the leaver and the stayers.

Q75 **Chris Stephens:** That is helpful. If we maybe turn it around conversely the other way. Could an individual with a defined contribution pot buy their way into a CDC scheme at retirement and how would that work out?

Kevin Wesbroom: I can see that as being one of the longer-term potential gains or aspirations of using CDC, that people would transfer in at the point of retirement to convert their income into a CDC annuity lookalike and you would use the same process in reverse. You would say, "As of today, given today's financial conditions, what is a fair target benefit that I could provide for a capital sum transferred in that I can deliver, not just for this member but for the other remaining members in the scheme?" so you have that fairness between ins and outs and the people that are sitting inside the system.

Q76 **Chair:** If I had been in from day one, building up my 100 units, my 100 units would be more valuable probably than had I taken the model of Mrs T's scheme, that I am going to battle myself and manage my own affairs and so on, wouldn't it? Although the annuity monies would be fair, we would end up at the finishing post, one with considerably more money than the other one, taking your earlier one and Alwin's one, between 130 and 150 units as opposed to 100 units.

Kevin Wesbroom: Yes, but you are looking at adding one more person to that collective pot. The point I am trying to make is that you would set that on fair terms relative to how everybody else had got there. As of today, you have been in from day one, you did not go the self-directed route, you have your 133. Adding another person at that point in time, a person who wants to transfer in from outside, I can still give fair value for your prospective benefits and that individual by looking at what the target they could both support would be and giving equality or equity between those generations of individuals.

Q77 **Chair:** But they would not get 130 units?

Kevin Wesbroom: No.

Philip Bennett: Could I put an answer in there? I think the person coming in will either be able to purchase 133 because he has enough money, or if their investment performance for the same contribution was worse than yours then they would not get 133; they might get only 100.

Chair: That is brilliant of you. Is that all right, Chris? Ruth wants to come in on this and we are going to Emma.

Q78 **Emma Dent Coad:** Thank you, yes. I will ask initially to Kevin, but others might want to come in on this. Some of the evidence that we had to the Committee said that workers who happened to retire from a CDC scheme when the stock market is at a peak typically end up doing less well than they would do under an individual DC pension scheme. Is that correct? If so, how do you balance out people's expectations?

Kevin Wesbroom: I will start with that, although Alwin has already alluded to the volatility of it. Absolutely right. We are not saying that a CDC scheme will guarantee to give you better than an individual one would. If Frank had taken his money, he might have chosen all of those high tech stocks, he might have been lucky to get out just in the year 2000 when the tech boom was going, when annuity rates were quite attractive and he would have had a much bigger income than my dull, boring, steady plan, which is sort of muddling up and just drifting up gently over time. When we did our modelling we said that the benefits from an individual DC, your self-managed one, could be somewhere between 6% and 60% of salary, depending on when the individual retired and we are drawing a line between that and saying, "Do you know what, 30% is not a bad outcome".

The issue is that nobody knows upfront whether they are going to be the lucky generation that retires at the top of a dotcom boom or 10 years later. Individuals who retired five years apart, buying annuities under a DC scheme, can have an income for life that is half of what their colleague gets. That unfairness, which the TUC calls a pensions lottery, is something that we do not think individuals necessarily want to take on board. The smart ones, who think they can outdo the market, may well be prepared to gamble, but for most people they would probably take that steady average rather than chance their luck.

Chair: Does anyone want to add anything to that?

Dr Oerlemans: Yes. I agree on that. Also, when retiring at the peak of the stock market and there is still a very long investment horizon, so you can buy an annuity that is risk free, but then you will lose out on all possible future returns, so it is really the averaging over time that helps. It is the returns over a 60-year period basically that count.

Chair: We have quite a lot to get through, but Janice, are you happy with that answer as well? Please come in.

Janice Turner: Yes. What ordinary working people are looking for, what they want that they cannot get at the moment if they are in a DC system is to get a pension that they can rely on and that they know roughly the kind of area they are looking at. They do not want to have to make difficult decisions. At the moment they are even expected to make decisions about how they should invest their money; they need to be looking at how much in contributions they should be making. Then when it comes to getting a pension, they have to make lots of difficult decisions, whereas even though there is freedom of choice, I would say that there isn't sufficient freedom of choice because the one choice that you do not have when you retire is to do nothing. What people ought to be able to do is have the safety of being able to take a default option, which is kind of what a CDC pension would be, and take that option knowing that it is a safe option. I think that is what is missing now.

Chair: Which leads on to you, Nigel.

Q79 **Nigel Mills:** I get slightly nervous when we get on to these sorts of questions. Can you go back, Mr Wesbroom? You were saying somebody could leave the CDC and take their costs. Is that during the accumulation phase or the decumulation or both that you are thinking of there?

Kevin Wesbroom: I was thinking very much of cumulation only. Once the pension has come into payment, it is far more difficult to strike the balance of fairness between the leaver and the people staying behind. You would probably have to have some form of medical underwriting or something like that. It is complex. It is unnecessary. It goes against what Janice was saying about having a system that an average person could rely on. I would draw the line at the point of retirement. It is not different to defined benefit pensions. Once the pension has come into payment, that is it; you do not have the right to transfer out of the system.

Q80 **Nigel Mills:** Because otherwise I do not tell you I have become seriously ill and try to get my money, do I?

Kevin Wesbroom: Yes. You will start smoking 20 a day and game your impaired life annuity.

Q81 **Nigel Mills:** Moving on to annuities, you appear to be suggesting that in the future, if this worked, I would be far better off buying my way into almost like a collective annuity than buying a single annuity on myself and that would be better. I suppose I have always thought the annuity market worked better when there were lots and lots of people buying annuities, the insurance companies had a large hedge and on some they won and on some they lost, which strikes me as being roughly the same as where you are going to end up if you can buy into a collective DC scheme. How do you get that extra benefit you were talking about?

Kevin Wesbroom: There is the question of the extra investment return, which you have, but there is a subtle point, which is that under the collective you are not guaranteeing benefit. Once you start to guarantee a benefit, people like regulators insist that you behave in a certain way so that you can meet that guarantee, which in effect constrains your investment ability. Therefore, in order to deliver the guarantee, you are forced to invest more defensively, so you do not get that. You are right, however, the collective annuity is a good description of what would happen there. It is replacing the insurance company and the capital that is needed in the insurance company by the individuals themselves—they are sharing, they are pooling their risk—and that is something that insurance companies could move into.

Most of the major insurance companies have master trusts, which under Philip's instruction would be a way in which these could be delivered, so it is not as if we are taking away their market opportunity. I believe annuities will complement the freedom and choice. The collective annuities could complement that. There will still be a role for annuities probably later in life, people buying annuities when they are 75 or 80, when that shorter timeframe makes the annuity a more appropriate solution, but I think, to Janice's point, the collective annuity could fill a gap for a lot of people. Not everybody, the high net worth individuals, the impaired life individuals or whatever, they will have their own roles to play. For a lot of people, however, this will be a pretty good solution.

Q82 **Emma Dent Coad:** A question for Janice. CDC places a lot of responsibilities on the trustees with regard to responsibility for communication and managing expectations. Do you think the trustee community is ready and willing to embrace the challenge? I am specifically worried about the numbers of people ready to take this on and the quality and adequacy of training for them.

Janice Turner: We believe that they are ready. AMNT has supported the establishment of CDC for several years now because of the concern our DC trustees consistently expressed about pension outcomes for their members. Since AMNT was established, we have asked new members, upon joining, what their greatest concern is. DC members—this is DC trustees—have overwhelmingly and consistently stated that their biggest concern was what kind of pension their members would ultimately receive. Last week, for example, we used an annuity calculator to see what kind of pension a 65 year-old DC member might have if they saved £1 million and the pension offered was just over £27,000. Of course most members never get anywhere near £1 million.

The size of the average pension pot in the UK currently stands at just £50,000, according to Aegon. A 30 year-old earning the UK average salary of £27,271 a year contributing the current minimum of 1% to their workplace pension, which is matched by their employer, would achieve an income in retirement, according to Scottish Widows, of just £9,734. In the light of all the studies therefore from Aon, David Watson, the Government Actuary and others, as an organisation we cannot fail to support the establishment of a new type of pension scheme that could increase the pensions of people currently in DC schemes by as much as 30%. We cannot sit here and just hope it happens. We have to say if there is a possibility of ordinary working people having an uplift of possibly 30% or more, it is something we feel we really must support.

We can envisage that from a trustee viewpoint, the new CDC system would have some elements similar to DB and some similar to DC. Many existing trustees have experience of both DB and DC benefits and so they understand the difference between managing member risks and employer risks. They would therefore recognise the need for clear communication of the risks within CDC. DB trustees already work closely with actuaries in agreeing the technical provision on which scheme valuation is based so the actuarial valuations required for CDC schemes will not be an alien concept, even though the subsequent decisions are different.

The challenge of CDC trusteeship, as we have heard today, is all about communication with the members and that element is more akin to DC schemes, which DC trustees have put particular focus on. We carry out an annual survey of our trustees, and in our latest one 86% answered yes to our question about whether the trustee or their scheme has done anything in the last year to increase member engagement or understanding of pensions. Examples that our members gave included improving existing communications, introducing newsletters, improving the website. Some got on the train and did roadshows, going around the country, going to the main workplaces, holding direct meetings with members. Some schemes organised local training and presentations. There are many risks that DC trustees already have to communicate to their members and members of DC schemes have a lot of issues that they have to take.

By contrast, CDC trustees would need to balance the requirement on the one hand to see that members understand the possibility that increases in life expectancy or adverse changes to investment returns may result in adverse movement in contribution rates and/or levels of pension in retirement with, on the other hand, the need to reassure members that the target replacement income for members’ retirements has a high probability of being achieved.

Basically the bottom line is that we believe there are a lot of DC and DB trustees out there, trustees of both types of schemes. We feel that when they can see the kind of potential benefit that there is, substantial benefit to ordinary working people, I think there will be a lot of people who will be saying, “Yes, we really should do this”.

Q83 **Emma Dent Coad:** How many trustees or potential trustees are you in contact with?

Janice Turner: Our membership is over 700. We have regular quarterly meetings of our members.

Q84 **Emma Dent Coad:** The survey that you put out, which had a very positive response, how many of your members responded to that?

Janice Turner: About 130 to 150.

Q85 **Emma Dent Coad:** Would you say that of the 700, they are all active and keen to move on, but they just did not happen to respond to your survey?

Janice Turner: We did not ask them in the survey about CDC. We asked them about what they are doing, the kinds of work they are doing. The particular question was what were they doing about increasing understanding and information about the pension fund. We would be very happy, however, to add further questions to them, if that is what you would like.

Q86 **Chair:** Janice, 700 out of how many—this is not a trick question, I genuinely do not know the answer—trustees are there?

Janice Turner: There are several thousand out there. We do not claim to represent the majority of trustees.

Chair: It is quite an important gap, isn't it?

Q87 **Steve McCabe:** One of the messages that this Committee has had when we have looked at schemes that have got into difficulty recently has been about how hard it has been for the trustees, how lacking in support they have felt; how difficult it has been for them to intervene meaningfully. If the Government are saying their objection to CDC is that it would be too complicated to introduce, too complicated for the industry—that is what the Government seems to be saying—how can we be certain that we would not be imposing very onerous requirements on these trustees?

Janice Turner: What the trustees would be saying to that is that from the evidence of our own DC members, we feel that there has to be an improvement in the offering that is made to ordinary working people who are members of DC schemes. As we have discussed today, there is a situation where DC members come up for retirement and they have to make a serious decision about what to do with their money. What they cannot do is simply rely on the pension to be paid out to them in the way that a DB member can. There are economies of scale that CDC schemes can deliver, kind of on a par with the large DB schemes.

Q88 **Steve McCabe:** I understand people being motivated by the idea that the people they are representing would get a better deal than they get at the moment. I can see that. I think that is one of things in favour. I am trying to understand—although I am quite interested in CDCs—how we avoid a situation where we create all these trustees with these onerous obligations who are actually out of their depth. It seems to me that the lesson this Committee has heard about other schemes that have failed—I am thinking obviously largely about defined benefit schemes—the trustees have been out of their depth at times. That is how it has looked. How do we avoid that becoming the issue here? It is not because I want to stop it. I am just curious to know if that is an argument we should be concerned about because I thought part of the implication of the Government saying this would be too much for the industry to cope with was also a suggestion that maybe the structures, in terms of trustees, could not cope with it.

Janice Turner: What is absolutely necessary is that there has to be proper training put in place. Training across the industry and across pension schemes is very variable. You could say that the larger the pension scheme the more formal the training. If you were looking along the lines of a large pension scheme, and I think we are all hoping that the CDC model would be for large pension schemes, there should be a proper training programme in place from the start.

Q89 **Chair:** Who should do that?

Janice Turner: You could do it in-house. You could do it with industry providers. We would be expecting the pension regulator to be coming up very quickly with guidance in this area. Once the regulator and the—

Q90 **Chair:** Did you say, "very quickly"?

Janice Turner: Hopefully it would be, if we are trying to get CDC off the ground, but once the legislation is in place and the guidance is in place, that is when you can set up proper training around, "This is what is expected, this is what you have to do, these are your responsibilities".

Chair: Philip, you wanted to come in.

Philip Bennett: Yes, perhaps I could give another answer to Steve's very valid question. One of the great challenges of a trustee of a DB scheme is if you have a deficit, you have to persuade the employer to pay you some money. That is quite tough. It can be very tough if the employer is financially stressed. We do not have that in a CDC scheme because the money is, if you like, fixed, it comes in. The area of focus is, "Am I managing my risk in the scheme and my investment in the scheme in a way that will allow me to have a good chance of delivering my target benefit?" It is a different focus and so that difficulty is removed in the CDC trustee world.

Q91 **Steve McCabe:** But it is replacing it with a different one, which is that you have to understand an awful lot more about managing risk, presumably.

Philip Bennett: Which is a fair challenge; it would be a fair challenge. That is where you have to have a combination of training, of the good commonsense that a member nominated trustee brings to the party, and of course the skin in the game, they are members of the scheme, so if they screw up, they are also themselves—then the last piece of course is that the key challenge is if you do not know the technical side of it, you make sure you appoint the appropriate experts and then hold their toes to the fire to make sure that they tell you the truth.

Kevin Wesbroom: In terms of the structure that Philip had identified as a way of bringing this legislation into effect, one of the things is the role of the regulator in giving authorisation to a scheme and part of that authorisation would be to check that those trustees do have that mix of skills. I agree with your point. It may be a different set of risks that they are facing, but they are quite complex and you would want to have a demonstrable system that shows those trustees, the trustees of this particular scheme, have it. That is part of the process that the regulator would go for when he authorises any particular scheme.

The other thing to bear in mind is that we are not expecting thousands of these schemes; it is a relatively small number, so there should be enough good people around to deal with them.

Chair: We are looking at the four big accountancy firms and we have had evidence saying that we should put them under the cosh, which is maybe what we will do—I do not know, we have not done our report yet—but I have been trying to get, on the pension side, that they build up their own group of talented experts who will be advising them and they are not part of any other old company that has conflicting interests.

It seems to me that the decisions she has been taking—I am going to go back to Emma in a moment because I know Emma wants to come in again—she has been part of a very successful pension scheme, but the advisers may not have been as good as the actual trustees in this example. I see one of the missing pieces being that if I were a trustee, who the hell would I go to, after looking at our evidence to Carillion, and these four bodies just changing hats when they wanted to? I would put on the table that we do need an independent—really independent—body of huge expertise that can outmatch whatever the four offer in terms of advice.

Emma, can I put the question back to you?

Q92 **Emma Dent Coad:** Yes. I spent six years on a pension committee at the council, which was, as I saw it, completely led by the fund managers, who were, thank heavens, successful, 110% funded, but I had no training at all, absolutely none. I could always find something to ask them, money squirrelled away where it shouldn't be, kept in cash where it should have been invested and so on, but our pension fund was successful, Kensington and Chelsea Council. However, without that kind of expertise, if the fund managers had been failing us, I would not have known what to ask because there was no training whatever for me in a very well-funded and high-profile investment committee with £1 billion in the bank, so I am very concerned about this issue of training. How do you know if you have good fund managers or not? Because I would not have known. All we knew was when they added up, KPMG did our sums at the end of the year; that is all I knew. I am very concerned about this. It is a massive risk to people getting involved, people who may not have the skills. How do we deal with that?

Janice Turner: One thing you have identified is the fact that there were differences between the local government pension schemes and private sector trustee-based pension schemes. We identified this weakness. There simply did not seem to be the same level of training or even expectation of training with LGPS. That is one thing that we thought was seriously lacking. However, we would not see that that would be the situation with a CDC scheme because, as Kevin has been saying, a key point of it has to be the quality of trusteeship on the board. There has to be training. Quite clearly there can be elections for the selection panel so that people can be elected to take part in the selection process.

Q93 **Chair:** I chaired the committee looking at, however we wish to describe it, the Maxwell pension scandal and we made all these recommendations about educating trustees and here we are hearing them again. It is very important you listen, because they have not been done. How do you answer this question that Emma has put about the importance of trustees knowing and how does that balance against what I am arguing as well, that well-trained trustees can still be powerless unless they have powerful independent expertise to challenge the fund manager?

Dr Oerlemans: Yes, it all starts with good pension fund governance, so that is the basic safeguard to safeguard participants' rights, participants' monies.

Q94 **Chair:** What do you do with your trustees, Alwin?

Dr Oerlemans: The quality of the supervisor, it is in law that trustees should be qualified.

Q95 **Chair:** Qualified in what, Alwin?

Dr Oerlemans: There are a number of tasks that the pension fund has to perform, so the law says they should be qualified and they should spend enough time on it. I think the regulator—

Q96 **Chair:** Do they sit exams and so on and get certification?

Dr Oerlemans: No, there are no official exams, but in order to become a pension fund trustee, the supervisor has to agree on that, so there is that approval and I think the pension fund industry spent a lot of time on creating the right programmes. If I look at pension fund trustees, also new pension fund trustees, because you also want outside people in the sector, there are a lot of executive training programmes that are offered by several universities. At least three universities that I know of offer these programmes and of course that is also part of showing, proving that you are a qualified expert.

Then a specific area that receives a lot of attention is the area of investing. There are specific qualifications required, both for being part of a committee or chairing a certain committee. I believe all these measures give a kind of objective-setting for board quality and I think that has really been helpful. Of course also in the Netherlands we have seen a process of consolidation, funds got together, and that is also related to the fact that sometimes for very small firms it was hard to find board members.

Q97 **Chair:** Are they member nominated, these people?

Dr Oerlemans: Yes, and particularly, for instance, if you have a tyre factory and you have a pension fund and they are chosen by the members, of course it is difficult to find the right person. You may have an accountant, but to have the investment expert, that has contributed to consolidation.

Q98 **Chair:** Are the bosses in your scheme as well?

Dr Oerlemans: Employers, yes. So normal pension-fund boards have employers on—

Q99 **Chair:** No, sorry. We are looking at cases where the pension scheme is in deficit, growing deficit, they have done all sorts of other things, the bosses, but they are not in the pension scheme. They have taken their loot off to somewhere else.

Dr Oerlemans: That is a very important issue.

Q100 **Chair:** Are they part of your scheme?

Dr Oerlemans: In most cases, in many cases, I think it is not possible to have these different hats, being at different tables at the same time, so there is this division of responsibility.

Kevin Wesbroom: I think you are right to focus on governance. It has always been my view that CDCs should have the highest quality of governance available. Part of that is—

Chair: It gives us, doesn't it, Kevin, a real chance to achieve that, because we are not going to get a mega number immediately; it will be a growing number, won't it?

Kevin Wesbroom: Exactly. You will have a strong process, I think, where the regulator will have a role. If you look at what is happening in the DC master trust space, which is an area where the regulator is starting to get involved, they are having to make judgments about fit and proper people involved in those schemes, about looking at continual professional development, setting a bar, they have their training, their TKU training and knowledge. There is no reason why you should not have a super TKU for anybody involved in a CDC scheme, recognising the nature of the challenges.

The other thing I come back to is everything you do as a trustee is out there in the public domain. Anybody who feels like taking a pot shot at you, can do it. I suggest that will put off quite a few people who might otherwise have felt like they would volunteer.

Chair: Can I bring Steve in? I know Philip wants to come in as well.

Q101 **Steve McCabe:** I want to follow up on what Kevin has just said. What on earth is the incentive to be a trustee, apart from the fact that you may be an anorak who is interested in looking your own pension? I wonder why on earth you would want to. Is there any money in it? What is it? Why do people do it?

Chair: You could put that question back on us, Steve. What is the point of being an MP? Who are these people who want to be MPs?

Steve McCabe: At least you can point out what the benefits are for MPs and that is also quite publicly available. I am just trying to ascertain why you would want to be a trustee. What is in it for you?

Q102 **Chair:** Would they be paid, Kevin?

Kevin Wesbroom: I think a lot of trustees would be paid. A lot of them would be professional trustees. They would expect to be paid for their services.

Q103 **Steve McCabe:** Right, so they are professionals and they are paid and they are elected by the members, so there could be some contradictions there.

Kevin Wesbroom: A combination of those things.

Janice Turner: You were wondering about whether CDC trustee boards should be predominantly member nominated. We have discussed that. Trustees individually seem to come to the same conclusion, that they felt that although the majority should be MNTs, maybe it should be the same balance as existing DB schemes, which is one third employer trustees and two-thirds member trustees in a CDC situation. Yes, they could be complemented by professional trustees to ensure that there is a diversity of views on the board.

Q104 **Chair:** Janice, why should employers have anything? I would like to see the schemes with the employers in. If it is such a good scheme, they would not want to manage their own affairs, although they would be making bigger contributions and getting bigger benefits. Why shouldn't they take their luck in getting elected along with all the other members? I cannot see why we should go down this model of thinking the employer should have a role when they are not taking any risk.

Dr Oerlemans: It is because we want them to put money into the scheme. What we all recognise is that the more money that is put into any kind of scheme, the better the result is going to be, so we do need keep the employers onside and on board and involved in the scheme in order to ensure the longevity of the payments and the maximum payment that our member are going to get.

Philip Bennett: A couple of things, Frank. You rightly say that we have existing legislation, which says that trustees are required to have the right amount of knowledge and understanding to perform their duties as trustees. That is in the Pensions Act 2004. It has been around for a while. You also have a requirement for trustees to be satisfied on internal controls. There is also a requirement that if you are becoming a trustee for a first time, you have six months to acquire your knowledge and understanding, which is a bit like driving the car for six months before you have passed your test. I think for the CDC world, you would probably need to pass the test before you become a trustee. That would be my observation.

As Kevin and Janice have said, you need a higher degree of professionalism. There is a role for having a mixed board of professional trustees who have paid and have the expertise, the member trustees who have the real skin in the game if their pension screws up, then there is a role for the employers, if they want to have it. One of the motivations is you are hoping as an employer to provide an adequate level of target retirement income—or at least I hope some employers are—for your employees, so having an input in the process.

Chair: I am anxious because the Minister has been very good. We have run over time so we will do our last question and then bring the Minister up.

Q105 **Ruth George:** You have addressed the issue around the makeup of boards, but how would you see these boards balancing out the different interests between both the employers and the employees and also intergenerational between the receivers of pensions and also those who are contributing? Could I ask Janice that?

Janice Turner: One of the issues that we were considering was to follow the example of quite a lot of existing pension schemes. They do not just have MNTs but they make sure that the board includes retired member trustees as well as active member trustees. We think in these circumstances, where there are such big decisions made in relation to pensions and payment, that it would be quite a good reason to copy that example.

Can I just add one point to the previous discussion? One of the issues that AMNT has raised over several years is the issue of time off for trustees to fulfil their duties. Currently the situation is that trustees are entitled to reasonable levels of time off, but it is not specified what "reasonable" is. Consequently, member nominated trustees quite often will have to negotiate with their line managers to get the time off. So it is not something where everybody is in a self-scheduling occupation where they can simply shift their diary around. We would think that if people are not serious about their trustee roles they need to have that support of having adequate time off to do so.

Chair: What has been so valuable about your evidence today is if it is going to be a runner, then we are at the beginning of a new era of pensions, and you have been advising us how we could make that a superb one by not having to keep adapting it further down the track. So we will no doubt do that. But how we might get many of the things right at the beginning, it has been so important today and our next session is going to be so important. I am going to ask our clerk that we get your evidence as soon as possible, with a summary of both yours and the Minister's, because we are going to get the guts of the arguments that we need to think about, whether this is a runner or not. Thank you very much. We are going to bring the Minister on and see where the Government are on all of this.

Examination of witnesses

Guy Opperman, Minister for Pensions and Financial Inclusion, DWP; Ronan O'Connor, Deputy Director, Private Pensions Policy, DWP.

Q106 **Chair:** Thank you for your forbearance. Will you introduce yourself and your team and then we will begin with Nigel?

Guy Opperman: Good morning, Mr Chairman, Committee. My name is Guy Opperman. I am the Minister for Pensions and Financial Inclusion. I have brought along Ronan. Do you want to say who you are?

Ronan O'Connor: I am Ronan O'Connor. I am a Deputy Director in Private Pensions, the Department for Work and Pensions.

Guy Opperman: Ronan has been working at DWP for the best part—I am going to upset him now—of 30 years.

Chair: Impossible. What pills are you feeding him?

Guy Opperman: Do not go there. Can I just say a few opening remarks?

Chair: You will be able to do that when Nigel asks you question 1. Seriously, if not, if you are unhappy with that, we will willingly have a summary from you at the end. Is that all right?

Guy Opperman: That is absolutely fine.

Chair: Otherwise we may not have any questions to ask you.

Q107 **Nigel Mills:** Can you just talk us through how the Department's work with Royal Mail and the CWU is going and what progress, if any, has been made on finding a way forward for them?

Guy Opperman: There are a number of stages of this, if I can explain. To say at the outset, from what we have seen from Royal Mail, the CWU is very positive.

Q108 **Chair:** Have they read what you have given them?

Guy Opperman: Yes. Let me walk you through the stages and you can grill me. I will try to give you the sequential stages. Ronan has met with members of the CWU. He met Ray and John, who gave the evidence on the last occasion to you—that is Jon Millidge and Ray Ellis—on several occasions building up to them reaching the agreement that they reached. Subsequently, on 21 February the representatives of Royal Mail and the representatives of the CWU came to the Department and I met them for the first time. That was a positive meeting. It was very much a first stage meeting with Ministers, but it was a very positive meeting. There are a couple of points to stress from that, which their engagement with myself and with officials—Ronan can amplify because he has obviously met them a lot more than I have—has been positive. They have been very keen to stress, and they did so in their evidence to you, that they were on the same page and they were very much joined at the hip in their desire to progress this.

They then subsequently have gone off and have prepared documentation, so they then submitted written documents to the Department. I think they arrived after close of business on Friday. I first saw the documentation on Monday, so two days ago. I confess I have barely read this. I have speed read it once. Ronan has had a look at it in a bit more detail, but again it is very early stages. They are on the same page. That is the message I want to give to you. They are very positive about the process and they are in a position that they are engaging jointly with the Department in submitting documents.

It is right to say that I cannot comment on outcomes and I cannot define how well this will turn out, particularly because, as I mentioned to you when I saw you when we both getting a cup of coffee yesterday, that—

Chair: I confessed that earlier.

Guy Opperman: All declarations are made, of course. The point I made to you yesterday, and I have made to the entire Committee, is it is simply too early to assess what it is, the content of what they have done. I can stress that they are engaging with the Department.

Q109 **Chair:** Does Ronan want to add anything to that, since you have had the document since Monday?

Ronan O'Connor: As the Minister said, we have been impressed with how closely the union and Royal Mail have worked. I had an initial separate meeting with Royal Mail and their advisers and then the union and their advisers. All subsequent meetings have been joint. That is how we will continue to work. We see and they see what they submitted to us on Friday evening as the first draft. It is how they think that they can change secondary legislation and use the minimum amount of parliamentary time to make some of the changes. We are now going to get into a series of meetings where we explore with our advisers, the pensions regulator and with them how these things can work.

You will already have heard this morning—I listened to your evidence and other evidence—how complicated and complex this is. There are questions around which particular legislation we use and how we use it and what additional protections in particular we need to put in place.

Q110 **Nigel Mills:** One of the questions on which legislation you use and how you use it, was the question still whether you use it at all? Are you minded to do this?

Guy Opperman: That is a fair question. The position is we are minded to assist, but at the same stage, I do not want to give any cast-iron guarantees because self-evidently this is very early stages. There are drafts that they have submitted and if it is the case that we are able to progress this then we would wish to assist in that. I realise I am sounding like a politician by that answer.

Chair: That is totally understandable. Why should you go? It is very difficult territory to go down.

Guy Opperman: It is.

Q111 **Chair:** Can I just ask, because it has been in the news recently, have the universities pensions scheme made any contact with the Department so that they can understand the issues better to feed their discussions, which they say they would want to have with their members?

Guy Opperman: I will go back to my written evidence. It is an important point to make and it slightly goes to Nigel's point, which is I have only done this job for nine months, but since say 2015, only one group of individuals—Royal Mail and CWU—have approached the Department to go down the CDC route.

You will understand, you have been in the Department, literally dozens of people make representations on all aspects of pensions, private occupational, all the time. I get representations every single week. Those are the ones I see, let alone the ones that the team sees. The universities have not done that previously. They may have—Ronan can come in and correct me—but I have not met the universities or the other groups who were involved in that and they have not come to me to make any representations. But to be fair, nobody else, aside from Royal Mail and CWU, have done this. More recently, and Ronan can correct me if I am wrong, I am not aware of the universities making representations in any way down the CDC route. Certainly I have not had any engagement with them.

Q112 **Chair:** Ronan, given what they are saying, they are trying to strike with the unions to end this dispute, have they asked you for any advice?

Ronan O'Connor: No, we have had no formal contact from USS or UUK.

Guy Opperman: To be fair, it is a while since I remember it, but I was definitely asked a question on this particular point at oral questions at DWP questions, I think the session before last, when one of the then Shadow Ministers raised this particular point, or it might have been a Labour Back-Bencher, I cannot remember which one. I made the point that, first, this is not a matter for us. It is between the parties involved. Government was not involved in any way in this process on an ongoing basis.

Chair: Nigel, are you happy?

Q113 **Nigel Mills:** The follow-up to my question is the evidence we are receiving suggests that these things could be a great solution that could improve the pensions landscape. Should it take individual companies to try to drag the Government to allow this to happen or should we say we did legislate for this in a previous Pensions Act? We should be quite enthusiastic in trying to encourage this to happen rather than just being responsive. What is the Government's policy on defined ambition or collective pension schemes now? Are we supportive or are we thinking it is too difficult? I am a bit lost.

Guy Opperman: Every speech I give, and you can go back all of the ones I have done, I always make the point that I want to be a champion for pension savings and investments building up of a pension. The Government's priorities over the last few years have clearly been focused on auto-enrolment as the main thing. There have been a variety of other particular priorities that the Department, before my time, have made an issue, whether it is new state pension, whether it is master trust, whether it is single financial guidance body or whether it is all manner of other specifics. The Defined Benefit White Paper is something we are considering at the present stage. The Defined Benefit Green Paper was something we issued last year.

The main objective has not been CDCs, quite clearly. The main objective has been building up DC and managing DB. The managing of the DB has been through the Green Paper and White Paper to come and the DC approach has been the remarkable success and expansion of auto-enrolment.

To get auto-enrolment to 9 million savers and over 1 million employers was well above everybody's expectations in any interpretation when it was first drafted, but that is building up the pot. We have been focused very much on accumulation rather than CDCs, which is focused more on decumulation.

Q114 **Chair:** If one looks back at your Government's record, it has been a good one of responding to needs. We need more money so you do auto-enrolment. We know that lots of people were totally confused, as I would be, about what to do with this money, so you set up NEST. Nigel's question was are you thinking forward, saying another area would be for this Government to try to work out a model in which most schemes, if they wanted to go down the path—which we know the Post Office want to go down—could lift your model and gain your blessing?

Guy Opperman: I will let Ronan come in in terms of what the Government has been doing over the last few years.

Chair: It is a question from Emma as well.

Guy Opperman: Is that the question 5 in relation to NEST?

Chair: You answer mine and then Ronan will answer Emma's.

Guy Opperman: I will park the NEST point because clearly NEST is what used to be called a quango, now is called an arm's length body and is not run by Government. Certainly it is something that is independent of Government.

Q115 **Chair:** It is a huge success, is it not?

Guy Opperman: It has been a massive success.

Q116 **Chair:** It is another very important part of the pension furniture, if we have to use this language.

Guy Opperman: Also we have been doing work, whether it is on master trust and consolidation, to assist that process, but in relation to CDCs this has not been a priority since 2015, partly because there has not been a call for it. It is clearly the case that there is now one group that is very keen on this and we are attempting to facilitate and assist them. We are clearly going to wait and listen to what the Select Committee says on these matters.

Q117 **Emma Dent Coad:** I will ask Ronan a similar version of Frank's question. Whatever arrangements come out of the Royal Mail scheme, are you thinking about future-proofing it to accommodate other organisations, which may wish to go down the same route?

Ronan O'Connor: Absolutely. We do not make legislation just for specific schemes. What we have gone to is, as the Minister has said, somebody who has sat down and thought through the type of scheme they want to design. I have always been struck by the debate, and particularly this morning with the people you had on the panel who we talk to quite a lot, we sometimes confuse the difference between one of the fundamentals of a collective scheme and what is a particular scheme design. We talk quite confidently about of course you can transfer out, but that is a question of whether the trustees decide to design that in or not. But there are some fundamental underlying things to what is the difference between a collective DC scheme and an individual DC scheme.

When we were working with Royal Mail, they decided they want to try to design their own scheme and make some design decisions. What we have to work with them on is understanding how we might need to change legislation so it will work for them. But also for anybody else in that situation we will have to consult on those changes and go out and obviously come to Parliament if we are changing secondary legislation to affirmative. There will be public consultation as well as probing and perhaps other committees like this to test whether what we are doing is fit for purpose for other schemes. The short answer to that question is yes.

Guy Opperman: We clearly have to engage with the stakeholders, which is the pensions regulator and those key players, but I wanted to make clear to the Committee, we can be under no doubt this is a parliamentary process. We have to do this by regulations and we will have to do consultation.

Q118 **Chair:** But the importance of yours and Ronan's answer to Emma's question is that in responding to the Royal Mail you are doing it in a way that could be the next stage of pension development in this country. You are not doing it in a way just to satisfy a one-off claim.

Guy Opperman: Exactly.

Chair: Although we would hope it was a one-off.

Guy Opperman: There is only one person in the queue at the present stage.

Q119 **Chair:** They are thinking about it.

Guy Opperman: Clearly one has to accept it is possible. I know it is anticipated by this Committee that others would do this. We are not in the business of creating legislation bespoke pieces for one individual organisation. What is part of the difficulty, if I go back to what the priorities of the Department are, it is important that legislation is created that can accommodate everybody because if you get into bespoke pieces it is extraordinarily—

Chair: Everybody will want it done that way. I am not going to say any more because we are on to your question.

Q120 **Jack Brereton:** I just wanted to ask a bit more around the legislative framework. In relation to the 2015 Act, the Department has said a few things about it not being the most efficient way of introducing this and also that it would be unacceptably disruptive for the 2015 Act to be used solely for enabling CDC. Could you just add a bit more about why you think that is the case?

Guy Opperman: I will pass to Ronan to answer the complexity argument, because he is the man who has to deal with the day-to-day dealings with the 50,000-plus different schemes. Do you want to expand on that and then I will come back and amplify them?

Ronan O'Connor: The important thing to realise about the 2015 Act, so the Defined Ambition Act, was it was not just trying to introduce collective DC schemes. It was trying to do something much more fundamental. Philip earlier on talked about the current legislative framework, which is binary. The current legislative framework defines money purchase benefits, what we would understand as DC, but DC is not entered. It defines money purchase and everything else is not money purchase. There was a concern that binary approach limited employers to how they design schemes. What we were trying to do was have a much more flexible framework. So defined ambition was the kind of middle bit, so we would define for the very first time in legislation "defined benefit", based on the notion of a promise. We would define DC, defined contribution, the old money purchase definition, defined on the notion of absolutely no promise, no guarantee and the defined ambition, which we called risk sharing. The idea there was that you were sharing risk among parties, so not across members but between members as one group and a third party; either the employer or insurance company or whatever. That is what we were trying to do. Then the next level down you have collective benefits. Collective benefits you are sharing the risk among members, not between parties.

When we say now, if what you want to do is to introduce a collective defined contribution scheme you really do not need to overturn all of the existing legislation. It seems to us that if you want that one thing to redefine everything and then make every single scheme have to look and figure out, "What am I now? Am I DB scheme or a DC scheme or am I defined ambition scheme?" which was always a criticism of that 2015 Act. I know some of the people were in the room in our committee at that stage and that was a concern: is it worth it?

That is our objection to saying if you want a collective scheme, perhaps the disruption that the 2015 Act would cause. It is not the same, with respect to what Mr McCabe was saying, that we think that it is far too complicated. It is a point on parliamentary time, disruption to scheme and what the outcome is.

Q121 **Jack Brereton:** How do you think it is best to do that to limit use of parliamentary time?

Ronan O'Connor: That is the challenge that we gave to the Royal Mail, when the Minister met them, and gave them a clear challenge that is, "If you want to do this, rather than just saying to Government, 'Can you please design it for us?' can you go away and figure out what it is you want to provide for your employees and the union members, for your members, and look at the current legislative framework and ask yourself the tough questions about what is the minimum that we need to change?"

Philip Bennett, who was sitting here, has already done a paper, which I think he submitted as evidence. Kevin Wesbroom, who was sitting here, is part of a team that is looking at designing that. The first draft of that is what we received on Friday. We now have to work through. They are not proposing that you do a wholesale introduction of the 2015 Act but they are looking at what existing powers do we have and what changes can we make to progress it.

Q122 **Chair:** Philip suggested we should change the 2011 Act. Has that been made to you as well?

Ronan O'Connor: We might argue about whose idea it was, so the 2011 Act, because of—

Q123 **Chair:** So it is the Departments?

Ronan O'Connor: The history to the clause of the 2011 Act was there has always been or there had up to that point been some confusion among pension schemes about what exactly was a defined benefit and money purchase. So you had schemes making what we would describe as a promise they did not describe as a promise. We took powers from the 2011 Act to be able to amend the definition. The question we are asking is can we take those powers and use them to introduce a slightly different definition of money purchase benefits?

Q124 **Chair:** That would be a statutory instrument?

Ronan O'Connor: Yes.

Guy Opperman: If we were to go down that route it is likely to be an affirmative statutory instrument that is debated in this House.

Q125 **Jack Brereton:** You said there does not need to be huge change, it could be a more limited change to limit parliamentary time. What sort of regulatory regime would you envisage to address some of the issues around particularly the benefits adjustment and scheme funding?

Guy Opperman: I will start and then I will let the genuine expert in the field give you a bit more copious detail. I know you heard some of the points that everybody was making, but we have to design a scheme that has the appropriate standards on funding, valuations, rules, adjustments and the appropriate safeguards. The complexity of that is significant. Ronan, do you want to give a bit more of an amplification of that? That is the start point, what that then looks like.

Ronan O'Connor: Again, referring back to Philip Bennett's evidence and other evidence that you have seen, most of us agree that it is possible to change the definition of money purchase pensions using the 2011 powers. That is one half. How do you create the space for these things to go? The much more difficult issue, which is your question is: what sort of protections do you need to make? In the 2015 Act we set out a list of about 10 different areas in which we need either some sort of legislation or regulation. I have been trying to memorise all 10 of them, which I will not get, but they are things like how benefits are accrued, what happens when things go wrong, how do you wind up, how do you transfer in and out, communication and so on.

The challenge for Royal Mail and their advisers and for us and the regulator is to see, of all of those 10 areas that we think need something, do they have to be in legislation or can we, with the regulator, ask them as part of an authorisation regime to check off some of these issues?

Q126 **Chair:** It makes the role of the pension regulator even more important, does it not?

Ronan O'Connor: It does. I think of it two ways, and both of them make me nervous. It does put a lot of reliance on the pensions regulator and that is not just about all they have to do at this time, but a systems issue. There may be something about if what we are trying to do is to move quickly but not hastily is that to set up the first one of these schemes we rely on the regulator and we later start to put some of what was in an authorisation regime back into legislation. I am sure you would have a view of where the House should be in terms of scrutinising that. The challenge for us has been how do we do it as quickly as possible, wasting as little of your time and the Department's time and the adviser's time as possible.

Chair: I am anxious about the Minister's time because we are keeping him well over what we wanted to.

Guy Opperman: Can I just add two points to that? I did 20 years as a lawyer. My last esteemed client was Mr Ed Balls, as Secretary of State for Education, but I was representing the Labour Government and the Department for Education in the High Court defending the actions of the Department for Education.

Q127 **Chair:** What was his result?

Guy Opperman: I am pleased to say I was successful representing the former Member for Morley and Outwood in defending his actions on various things. I will not go any further than that.

The serious point I am trying to make is this. The lessons you learn as a lawyer, as a public lawyer, which I was, trying to represent people, represent the state, on both sides of the state, is the first golden rule is normally quick law is bad law. The Dangerous Dogs Act is the one everybody cites is the best example, but just be very careful when you are trying to do speedy things because there is always stuff that Government misses, in every shape or form, and you need to consult and do it in the proper way.

The second bit that I would always say—and I think since getting into Government I have become more aware of this, but we have all been aware of this in this place—there is always a law of unintended consequences by Government action. The golden rule in my view of trying to be in Government, for senior civil servants like Ronan and Ministers, what you must try to do is when you are making policy—there is a reason why we consult and we take time, and it is very hard to explain to our constituents why we take the time that we do, and then we debate it and do report stage, third reading and everything, we go out for statutory consultation, but it is to ensure that the quick law does not make bad law. While we are all very conscious that Royal Mail and CWU are keen to progress this, that is a key point.

As Ronan rightly identified, there are about 10 specific break points, regulatory issues, call them what you like, that really have to be analysed in this process and what are the consequences of those. Are they parliamentary and statutory processes or are we entrusting them to the pensions regulator? What are the consequences of all those actions? So trying to be aware of what are the unintended consequences of an outcome that all parties may be seeking is the other key thing.

Q128 **Steve McCabe:** Can I just make sure I have understood this correctly? I was not suggesting that the Government said it was going to be too complicated but I thought the Government's reservations were that it would put too much pressure on the industry and it would require—I think the term that was used—the wholesale rewriting of pension legislation. Is it right to assume this morning that because of the work that the Royal Mail and the CWU have done with the Department that there has been a shift in that thinking and you think there may be a way of introducing at least this scheme as a model for future schemes without a wholesale rewriting? Is that the current Government position?

Ronan O'Connor: I would not call it a shift. I think we are talking about two different things.

Steve McCabe: I do not want to pin you down on that, I am just trying to understand, is that the current position? You think you have found a way where a scheme like this could be introduced without the things that in the past seemed to be a problem? Is that right?

Q129 **Chair:** Picking up on Guy's last point, you are mindful about making changes that have such unintended consequences that you would bring the house down with you?

Ronan O'Connor: Yes. The challenge we have given Royal Mail and the challenge we have given ourselves is to look at the secondary legislation that we have and the powers that we have to change that and to see whether we can either put the first phase of legislation in or completely legislate to allow these schemes. We do not know yet whether that is possible. We are hopeful, but we are cautious.

I am sorry to take issue with you, but the 2015 Act is trying to do something much, much more than just collective benefits. If the question at the time is what is the easiest way to deliver a collective benefit, we would have probably started at the 2011 Act. That is not what we were trying to do. That is what we are trying to do, but there is quite a lot of complexity there. The good thing about using the 2011 Act is that we are just going to affect those schemes that want to deliver this, whereas the 2015 Act would have caused all schemes to look at themselves. That is the difference.

If you are asking me do we think we have found a way, I do not know yet and neither do the Royal Mail's advisers. They have come up with some options and we are going to look at them.

Guy Opperman: If I can try to help you, I do think that there has been a small shift in a positive way, but we are not into the sunlit uplands as yet. Understanding the 2015 Act and its complexity and utilising that to resolve a CDC issue and what are the consequences of that is a real concern of the Department, and rightly so. It goes back to our point to Jack. Trying to find a way of utilising the 2011 Act, which is in a discrete way, is a definite positive shift. However much everybody would wish to progress it, there is still a long way to go.

Q130 **Steve McCabe:** That is really helpful. I was just trying to understand if it was worth the Committee's time pursuing this because you could conclude from Baroness Altmann's comments in the past that it was not. That is what I wanted to know. I take your point, Minister, that there is a way to go yet.

I was interested when I was listening to your ambitions about being a pension champion and seeing people get the best deal possible and that sort of thing, how worried are you that if we persist with the current DC arrangements that somewhere down the line we are going to have a very significant number of people who simply will not have a viable pension income?

Guy Opperman: You are relating to question 4 as the broad thrust of that particular question. I would flip it around. My concern is to build up people's pension pots. I start with a fundamental desire, as I think everybody would, to try to build up savings into a pension. The success of DC through auto-enrolment, the number since 2012, on a cross-party basis—this is something conceived under the Labour Party, brought in by the coalition, expanded by the Conservative Government and it is a 15-year cross-party success story on a level and a scale that is beyond anyone's wildest hope and aspiration. It has transformed savings in private pensions. Everyone else is looking at us to a degree as to the successes that we have had. If you ask me my biggest priority in this job, virtually from day one, it has been to ensure that the increase in April of this year and the increase in April next year of auto-enrolment goes off without a hitch with as few people withdrawing from auto-enrolment and to ensure that people's pots are increased as the rates increase.

One's priority surely must be trying to get people saving more. We can talk about other forms of savings, whether it is the sidecar version that NEST are talking about, some of the other ways that people are trying to create financially inclusive products to deal with difficulties and disasters as well, but getting AE to work, to review it, to expand it and to increase it has to be the main priority of this Department. I am a massive supporter of that. I do not think I gave a very good answer to Nigel but the point I am trying to make is I am trying to get the pot bigger. The best example I would suggest to you is, I think, Australia, who are several years ahead of us. There is a legitimate argument to say when you have a sufficient pot what then are you going to do with it?

Chair: You do not follow the Australian model. The great thing about post-war policy has been to build up a sector that is not dependent on the state in the exclusive way it was. Australia lets everybody come back on to the state system.

Guy Opperman: Also we have the retirement outcomes review from the FCA, we had the interim report last year. Their report is coming very shortly. That is one of the most exhaustive study of how we approach these particular problems going forward. Certainly weighting that is the key. I do stress though that the creation of a pot has been the most important thing.

Q131 **Steve McCabe:** I acknowledge the achievements with auto-enrolment, I think it is a great thing, and I recognise your priority to make sure that there is not a fallout as the rate increases. Again, I know it is your desire to make sure there are bigger pots. I do not think anyone could disagree with any of that. What I am wondering is, the evidence at the moment would suggest that there are going to be quite a lot of people retiring on DC schemes who will not have anything like sufficient pots to have viable pension incomes. It may be your achievement will drive those pots bigger, they may be in a better position but that would seem to be what is being suggested at the moment. I am wondering if the attraction of CDC schemes now is that it may give you another option to try to boost these pots. Are you more attracted to that idea? Do you accept that down the line we could have a problem?

Chair: Yes or no, Guy?

Guy Opperman: Yes and no.

Steve McCabe: Speaking like a politician.

Guy Opperman: The answer is we need to get people's savings up, as we know, to 5% and 8% and everybody in this Committee would accept that 8% is not a sufficient sum on a long-term basis. There has to be a very proper assessment by Parliament about what are the next stages thereafter and it will only work on a cross-party basis as to what stages we go and into what double figures longer term. Making sure that we get to 8%, the stat I was given recently from NOW: pensions of between 22 and 29, there is only a 4% dropout rate of 22 to 29 year-olds, that is a phenomenal success story. Trying to maintain that, and obviously there are opt-out rates, is utterly important and how we then look at longer term.

The point I was trying to make to Nigel is my focus is on accumulation and there are clearly determinations that need to be made on decumulation at a future date, of which CDCs may be a part.

Chair: That question is beginning to dominate rather than what we were hoping you would talk about so Ruth is going to bring us back.

Q132 **Ruth George:** Although it is all part of the same question and I am particularly—

Chair: That is not saying you should not have done all of this because we have umpteen reports we will be thinking about and getting the size of the pot up is crucially important, as Steve was saying. Ruth has questions that follow on from Steve's.

Ruth George: Yes, and particularly looking at NEST because that is obviously where so many people who have gone for the auto-enrolment have their pension pots. It is good to hear there is only the 4% dropout rate going up to 3%, but obviously we have to get that up to 5%, as you say. Just before being elected last year, I was involved in setting up a NEST scheme in a childcare provider. You are looking at young people on pretty low incomes, pretty low contributions even at 5%, but it is a big part of their take-home pay.

Encouraging them to believe that their pension is going to be worth it at the end of their working life is going to be a big part of selling the 3% and the 5% to them. Do you feel that NEST could be used as a vehicle for CDC to promote the idea that this is the best value for money that you are going to get from a savings scheme through your working life?

Guy Opperman: I will let Ronan come in on this in a second, but I can tell you that the Government policy at the moment is that there are no current plans to use NEST as a CDC vehicle. Clearly I arrived in this job nine months, there were decisions made before my time that I will ask Ronan to expand upon.

Q133 **Chair:** You are not closed to that idea, are you?

Guy Opperman: No. I do not think we are necessarily closed to it. Bear in mind though whether you want to call it a quango—I realise that is a word no one uses anymore, but I am quite old—

Chair: We all understand it.

Guy Opperman: We all understand what we mean by that. Arm's length body or a non-departmental public body is, I think, the new catchphrase. It is not something that is controlled by Government. It is an independent organisation.

On the point of whether we are in favour or against, we would want to wait for the FCA retirement outcomes review. That is utterly key and I think to make a decision or to give an indication before that would be, frankly, foolhardy. We should wait for that review and then take it from there. I am going to allow Ronan to come in on the history of where we are.

Q134 **Chair:** Ronan, given what we have heard, whatever the scheme is, this level may be a third to a half more, doesn't that make NEST—which was Ruth's question—that much more attractive? Particularly if you are going to have to make mega sacrifices in your standard of living to maintain full membership for auto-enrolment.

Ronan O'Connor: IF CDCs can give you that level of uplift, and even the people who advocate them most strongly are at pains to say that it is about a reduction in volatility and they are at pains to say that you are more likely to get better, they are not promising. That is an important point, we do not want to over-promise on this.

Chair: You may have cuts.

Ronan O'Connor: You may have cuts, which will be difficult to explain to people and may well undermine confidence. Your question was shouldn't that make us think that would be a good thing for NEST? I suppose my answer would be if it is a good thing it is a good thing for all master trusts and all schemes. NEST was set up at the time because of a perceived market failure. We do not direct their investment strategy and do not direct what they do. If we are going to find a way to introduce CDC working with the Royal Mail and consulting, such that it is available more widely, then I would expect NEST, like any other scheme, to look at that and take a good long hard look and see whether that is appropriate. They have already looked at that in the past and they are open to it, thinking about how they can provide better service and decumulation. We would need to be careful about Government mandating or directing NEST in the products that it provides. That is not the role of Government, I do not think.

Q135 **Chair:** This Committee was worried about master trusts and you responded well by greater regulation of them. Our worry would be we have not seen the effects of that regulation yet and whether it has overcome the problems that were worrying us about some of the cowboys getting in here as well.

Ronan O'Connor: Yes. Going back to my earlier answer, if it is good, then it is good for all master trusts in the DC.

Q136 **Jack Brereton:** A number of supporters of CDC particularly suggest that it promotes a less precautionary approach to longer-term investments and the strategies for those growth-orientated investments. You have expressed some scepticism about that and the fact that it is any better than DC in that regard. What action are you taking to address that and ensure that DC is making just as many of those sorts of investments as CDC would?

Guy Opperman: We have committed to consult on changing the investment regulations around pensions schemes. You will be aware of the various reviews that are taking place in relation to the Patient Capital Review, the Green Finance Taskforce, the Advisory Group on Social Impact Investing. You may not have been there when I gave a speech on this particular point at the Trade Union Congress—

Jack Brereton: That is not necessarily my show.

Guy Opperman: I was there, as was Jack Dromey, as was Debbie Abrahams, and we spoke to 500 union representatives at Congress House last month, making the point that we are looking at how it is that we can encourage a change in investment. The scepticism in terms of the outcomes on CDCs is as Ronan has set out, that there may be aspirations, but even their most ardent supporters accept that there are no guarantees there. There is a variety of things that we are doing to boost long-term investment in relation to individual DC schemes. I can certainly write and give you more details of that.

Q137 **Jack Brereton:** Why do you think it is that the proponents of CDC are suggesting that it is better at the investments they think it can make?

Guy Opperman: I will let Ronan come in in a second, but I reviewed the evidence given in writing. I do not have it in front of me now but there were a number of representations made and there were some very strong supporters, but there were also some very strong sceptics, putting it honestly. There is a mixed view of outcomes on this. Ronan, do you want to come in and try to analyse that?

Q138 **Chair:** Before Ronan comes in, in answer to Jack's point, your paper was submitted and you approved it some time ago for this meeting. All the clever dicks told us you were going to say something different today to what you had said. So the debate is moving fast, isn't it?

Guy Opperman: I suppose it is a fair point to say—29 January was when I wrote my letter to your good selves—since that time Royal Mail and the CWU have met, reached an agreement and then come to the Department to meet. We have had a very positive meeting. It is patently clear, I will keep stressing this, they seem to on the same page absolutely and as joined up as any employer and union organisation that we have seen for a very, very long time. Since then they have submitted some documentation for us to review and start that process. Events have clearly moved on, as Steve was making clear earlier on, significantly in the last couple of months. Things have changed to a degree, yes.

Q139 **Chair:** Ruth's point on this has been this might have progressed so well because there is a strong trade union side. The whole of my political life has been about trying to find functions for the trade unions that are relevant rather than beating us up all the time because we have taken away their traditional functions. Here is a huge new area for trade unions to sell themselves to members.

Guy Opperman: I made the point when I was at Congress House, which I was happy to be at, that I am a massive supporter of trade unions, particularly where they are finding a pragmatic role. There is no doubt that the CWU have worked hand in glove for the benefit of their members in relation to the outcomes of Royal Mail. They are being very progressive.

Q140 **Chair:** They would have an important role in teaching those skills to other trade unions, wouldn't they?

Guy Opperman: You could probably say that, but it is probably not right for me to say it. It is a fair comment.

Ronan O'Connor: Going back to your comment, the criticisms about pension fund investment are made of all types of pension funds. We hear people saying that DB funds should be investing more in infrastructure, DC funds and CDC funds. In part it is a common criticism that is saying just as much about supply as it is about demand. All pension funds are there for one thing, to make sure that they invest for the benefit of the members and make sure that they have enough assets to meet either the promises or the target, or to maximise the pension pot. If they are not able to see the opportunity out there to buy certain assets, then they will not buy. It is just as much a supply problem as it is a demand problem.

The question was on is a CDC necessarily more likely to invest for the long-term over a DC and I do apologise if you got the impression from our letter that we were trying to pour cold water on CDCs. What we were reacting against was a suggestion that CDCs are necessarily going to give you 40% more and you can guarantee that. We want to say, "No, they are probably better but not that much" and that they will not necessarily be welcomed by everybody equally. There will be a certain number of people who would find them easy to understand, other people who would not. Also in terms of the investment strategy we are worried about this idea of a silver bullet, that this is a fantastic thing and it has clearly worked well in other countries because that is obviously not the case. It is certainly something worth exploring here and doing it in the UK context.

Q141 **Jack Brereton:** Would you suggest that they are more risky in the approaches they take to invest?

Ronan O'Connor: They could do. The common—

Q142 **Chair:** They may be stronger to take those risks?

Ronan O'Connor: They may be stronger, yes. The common benefit that I think the panel before would say is that if you are able to think of a person from the age of 20 until they die in their 80s or 90s that you could maybe invest over that period—because you are in the same scheme accumulating and decumulating, and you combine everybody together to do that—and you can keep people in riskier assets for longer. You get an upside for that.

Q143 **Jack Brereton:** Which stimulates that investment?

Ronan O'Connor: Yes. That is undoubtedly true. You can also get that in an individual DC scheme. A trustee of a scheme that is trying to provide individual pots can also take a view on asset allocation to try to maximise. It is perhaps more difficult and if you are life-styling—so if you are trying to hit a maximum pot at age 65—you tend to de-risk as you get closer, but it is not necessary. That was the point we were trying to make. I apologise if it sounded like we were trying to say that we entirely disagree with that point. We were just saying we need to be cautious about claims that everything will be better in all aspects of this. We are very worried about it.

Q144 **Chair:** That part of the letter was written in invisible ink?

Guy Opperman: It has been expanded upon just now. Could I just add two quick points to Jack's point on long-term investment? If you have not seen the DWP and DCMS pension funds and social investment, the Government's interim response, that it is relevant in terms of the investment strategy. I would stress that every Government would always love pension funds to be investing in infrastructure—

Q145 **Chair:** But those proposals have failed, haven't they, Guy, in the past?

Guy Opperman: Efforts are being redoubled. The other point I would make is in terms of consolidation. We have recently laid regulations to make it easier for schemes to consolidate. In terms of the investment strategy, there are things that are being done and we would very much look to be improving the outcomes of those strategy investments.

Q146 **Chair:** The summary of that report, you could say, couldn't you, Guy, was here is a way for pension funds to own infrastructure and not foreign Governments?

Guy Opperman: We would love pension funds to be investing in infrastructure.

Q147 **Chris Stephens:** Minister, I think you have answered some of this going forward in terms of your priorities, but some of us are concerned that there are no plans to activate the provisions of the Pension Schemes Act 2015, are concerned that some of the industrial disputes we have seen in Royal Mail and the university lecturers grows, that we see more Port Talbots and we end up in a situation with defined contribution scheme members who think they have so-called freedoms, which prove illusionary. Minister, how do you see your role going forward? Is the Government committed to the Pension Schemes Act 2015 and is there anything you think you can do to help in some of the situations I have just described?

Guy Opperman: Lots of questions to answer. The answer in relation to the 2015 Act, Ronan and I answered that by and large earlier on, particularly in relation to CDCs. In relation to the difficulties seen in the DC approach generally, I think I have answered that to a degree in the sense that my key objective is to get those pots up. At the same stage, you will be aware—certainly the Chair is very aware—you have just done a Work and Pension Select Committee report on the Financial Guidance and Claims Bill that we are introducing legislation—sadly delayed because of Russia, Syria and other statements on Monday—to ban pensions cold calling. We are introducing legislation in relation to pensions guidance. We are doing a whole host of things to try to provide assistance to all of our constituents who are faced with those difficult decisions, whether it is in a British Steel context or another context.

Chair: The Committee want you to go a little bit further than that.

Guy Opperman: I am certain we will have a discussion and debate on the merits of the Bill and the various amendments.

Q148 **Chair:** The merits are fine. It is a really good Bill, isn't it? We just want to push you a bit further on those two areas you are talking about.

Guy Opperman: On pensions and guidance we are following the Work and Pensions Select Committee report, paragraph 46, by reserving those matters to the FCA. I think we are following the advice of the Select Committee.

Q149 **Chair:** Just like your own ideas have developed since you first responded to us, similarly our ideas as a Committee have just slightly increased since we tabled the report and the amendments that come from it. We just hope to persuade you, that is all.

Guy Opperman: We are very, very close, put it that way. The serious point, to answer Chris's question, is we feel that we brought in legislation supported by all the House at second reading and anticipate it will be supported by all the House at third reading, and certainly supported in the Lords, that is addressing many of the problems that we have all rightly identified on an ongoing basis.

Q150 **Chris Stephens:** Do you have any plans then to look specifically at workplace schemes, occupational pension schemes, because this is where we are now starting to see industrial action in a number of places and whether you are specifically looking at how you can help make sure that employers and trade unions come up with solutions that you can assist in?

Guy Opperman: We are always looking at the legislation and all legislation is always up for review and assessment. At the present stage, the legislative programme is as it is. I am not sure if Ronan wants to come in, if he has any specific examples he wants to give, but the single financial guidance body and the Financial Guidance and Claims Bill is the main vehicle by which we are addressing those ongoing process.

There are some other specific regulations going forward, but I am not aware of any particular things. Do you want to add anything on that?

Ronan O'Connor: I do not think so. The Royal Mail and CWU is perhaps a model for how parties can work together to figure out a solution that is mutually beneficial, which is why we are working with them. I said earlier on that we had been impressed with how closely they have been working. Perhaps in other cases we will start to see people looking at other options and thinking through. Your question on industrial action, there has been those two recent cases that were the subject of this and British Steel was a different case.

Q151 **Chair:** The last question, Guy, and you know I am going to ask it, do you have a specific date for the publication of the White Paper?

Guy Opperman: The answer to that is no. I think I am entitled to say it is definitely going to be in the spring. As we know, spring in the parliamentary timetable can be—

Chair: A very long period.

Guy Opperman: —a long period, but it will be soon, I am sure.

Q152 **Chair:** Before Easter?

Guy Opperman: I am afraid I cannot answer that question.

Chair: It has been a brilliant session, both this and the previous one. It has been so helpful to us.

Guy Opperman: Thank you for your time.

Chair: It has been exciting for us to see how people's ideas have developed. A huge thanks to you, Guy, and to you, Ronan.