House of Commons

Work and Pensions Committee

The Single-tier State Pension: Part 1 of the draft Pensions Bill

Volume I: Report, together with formal minutes, and oral and written evidence

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The Work and Pensions Committee

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Summary

The Government plans to replace current complex State Pension provision with a simplified Single-tier State Pension (STP). The legislative measures required to implement this reform were set out in Part 1 of the draft Pensions Bill published in January 2013, together with a White Paper setting out the detailed proposals.

The STP will be paid at a rate above the basic level of means-tested support (currently £142.70 per week). The Government's White Paper is based on an illustrative rate of £144 per week (in 2012-13 prices). Full entitlement will require 35 qualifying years of National Insurance Contributions or Credits (NICs). People with fewer qualifying years will receive $1/35^{th}$ of the full rate for each qualifying year. There will be a minimum qualifying period, yet to be defined, but expected to be between 7 and 10 years.

We agreed to the Government's request that we undertake the pre-legislative scrutiny of this important reform. However, the Government has made it very difficult for us to carry out this task effectively; first, due to the extremely compressed timetable it imposed on us and then by the change it made in the implementation date (from April 2017 at the earliest to April 2016) very late in the scrutiny process.

It is clearly not possible for parliamentary committees to conduct effective scrutiny when the Government makes significant changes to reform proposals after the evidence-taking has concluded and so close to the deadline it has itself set for the scrutiny process to be completed.

We decided to proceed with publication of our report because these State Pension reform proposals are so significant and affect so many people. We believe that our recommendations remain valid and that it is important for our findings to be available to Parliament when it begins its scrutiny of the final legislative proposals for the Single-tier Pension in a few months' time.

We consider it imperative that the Government now carries out a further Impact Assessment of the Single-tier Pension proposals, taking full account of the implications of the changed implementation timetable for individuals, the pensions industry and employers, and that it publishes this assessment at the same time as the finalised Bill is introduced.

We welcome the improvements in retirement income that the STP will bring. It will mean more State Pension in the short to medium term for many people who have already had significant periods of low earnings or employment gaps, particularly women and carers, and who were not well covered by the Additional State Pension (SERPS and S2P). Although the overall impact is likely to be marginal for a number of people, there will be a clear short and long term benefit for certain groups, notably the self-employed.

The greater simplicity that the STP offers should give people more certainty about the value to them of saving into a private pension scheme and should therefore work in combination with the complementary policy of automatic enrolment into workplace pensions, introduced in 2012, to help increase overall retirement income for many people.

However, the welcome clarity and simplicity that the new system will eventually bring will necessarily require a long and complex transitional period. It will affect all 40 million or so people of working age at the time of implementation.

The STP is intended to reduce reliance on means-tested benefits. Pension Credit will still be available but the Savings Credit element will be abolished, which in itself will reduce the numbers of people eligible for means-tested benefits. However, there will be pensioners on low-incomes who will still rely on other means-tested benefit, particularly Housing Benefit and Council Tax Support. The way in which the STP will interact with these benefits, and with other passported benefits available from both DWP and other government department, needs to be clarified.

One of the most significant changes the reforms will bring is that contracting-out will also end. This is the system under which employers who offer workplace pensions schemes, and the employees who are scheme members, can pay reduced National Insurance contributions in return for giving up entitlement to the Additional State Pension. This change affects pension schemes, employers and employees.

The pensions industry and employers had indicated to us in evidence that they were broadly satisfied with their involvement in the development of the contracting-out provisions in the draft Bill. However, they were expecting to have until April 2017 to prepare for the changes; they will now have a year less. This may well present them with a more significant challenge and it is vital that DWP continues to work closely with pension schemes and employers on the detailed arrangements for ending contracting-out, which will be set out in Regulations.

The key to the success of this reform is the way in which it is communicated to the public. There are already a number of misconceptions about what the STP will mean for individuals, including who stands to gain, who might lose, and whether individual entitlement that has already been built up might be lost. People closest to retirement understandably have the most immediate concerns. Many of these concerns have been raised with us during this inquiry. It is important that they are allayed as far as possible by the provision of accurate and understandable information at the earliest possible point in the process, particularly now that the implementation date has been brought forward by a year.

It is vital that the Government is in a position to indicate what its overall communications approach will be by the time the Bill is before Parliament in the early summer 2013. This should indicate what individualised information the DWP plans to make available, and how the internet will be used to disseminate information and help people understand the changes. It is particularly important that groups of people who may lose out, or who believe that they may lose out, are given accurate information so that they can assess whether they need to take remedial action, which might include making additional National Insurance Contributions.

It will only be possible for Parliament to make a proper assessment of the effects of the legislative proposals for the Single-tier Pension, and to judge whether remedial action or modification of the proposals are necessary, when it has sufficiently detailed information available to it. In addition to a revised overall Impact Assessment being required to take account of the earlier implementation date, we have indicated the specific issues on which DWP needs to provide more analysis of impacts, and costings of different options, when the finalised Bill comes before Parliament.

1 Introduction

In the text of this report, our conclusions are set out in **bold type** and our recommendations, to which the Government is required to respond, are set out in ***bold italic type***.

State Pension reform and the Draft Pensions Bill

1. The coalition Government has made clear its intention to reform the State Pension since 2010 when the Chancellor announced that the Treasury was working with the Department for Work and Pensions (DWP) on potential ways to simplify it "and provide a boost to pensioners for many years to come."[1] In the 2011 Budget the Government stated that State Pension would be reformed "so that it provides simple, contributory, flat-rate support above the level of the means-tested Guarantee Credit".[2]

2. DWP published a Green Paper in April 2011 entitled *A state pension for the 21st century w*hich set out two options for reform. The first would have accelerated the pace of existing reforms so that the State Second Pension would became flat rate by 2020 instead of the early 2030s. The second option was more radical and proposed the introduction of a single-tier State Pension, combining the Basic State Pension and the State Second Pension and set above the basic level of support provided by Pension Credit. The Government consulted on these options and published a Summary of Responses in July 2011. However, it did not indicate at that point which option for State Pension reform it intended to pursue, or what the timescale for reform was.[3]

3. The 2012 Budget announced that the State Pension would be reformed into "a single tier pension for future pensioners."[4] After a number of changes to the expected timetable for bringing forward the reform proposals, the Government published its White Paper, *The single-tier pension: a simple foundation for saving,* on 14 January 2013.[5] This was followed a few days later by the publication of a draft Pensions Bill; Part 1 of the draft Bill contains the legislative measures necessary to introduce the Single-tier State Pension (STP).[6]

The current State Pension system

4. Current State Pension provision includes the following components.[7]

1 HC Deb, 16 November 2010, col 726

2 HM Treasury, Budget 2011, Executive Summary, p 4

3 DWP, *A state pension for the 21st century: A summary of responses to the public consultation*, Cm 8131, July 2011

4 HM Treasury, Budget 2012, HC 1853, March 2012, p 3. See also HC Deb, 9 May 2012, col 3.

5 DWP, *The single-tier pension: a simple foundation for saving,* Cm 8528, January 2013 ("DWP White Paper")

6 DWP, *Draft Pensions Bill,* Cm 8529, January 2013

7 House of Commons Library Standard Note, Single-tier State Pension, February 2013, SN 6525, pp 3-4

Basic State Pension (BSP)

5. BSP is a contributory, flat-rate benefit. People with a full record of National Insurance Contributions or Credits (NICs) qualify for the BSP when they reach State Pension Age (SPA). The level of a full BSP in 2012/13 is £107.45 a week. The number of qualifying years needed for a full BSP is 30, for people reaching SPA on or after 6 April 2010. Between 2002 and 2011 the BSP was uprated by the higher of the inflation rate (measured by the Retail Price Index (RPI)) or 2.5%. From April 2011, the Government introduced a "triple guarantee" (also known as the "triple lock") that the BSP would rise by the highest of:

- the average percentage increase in UK wages that year;
- inflation (measured by the Consumer Price Index (CPI)); or
- 2.5%.[8]

Additional State Pension (ASP)

6. Individuals have accrued entitlement to ASP through:

- The State Earnings Related Pension Scheme (SERPS) which operated between 1978 and 2002; and
- The State Second Pension (S2P) which replaced SERPS from April 2002.[9]

SERPS and S2P derive from NICs on earnings between lower and upper earnings limits, or from NI credits. Entitlement can continue to build up throughout working life. S2P is compulsory for the employed (unless they are contracted-out), but not the self-employed. In 2006 the Government announced that S2P would gradually cease to be earnings-related and become paid at a flat rate. The Pensions Act 2007 introduced reforms of S2P, which also served to increase its coverage.

7. Since 1978 it has been possible to "contract out" of the Additional State Pension into a private pension scheme. Where an individual is contracted-out into a Defined Benefit scheme, they and their employer pay lower NICs, reduced by the amount of the "contracted-out rebate". The scheme used for contracting-out has to meet certain conditions. The contracting-out option ended for Defined Contribution (or money purchase) schemes in April 2012.

8. Pensioners with relatively low incomes may also qualify for means-tested support through the Pension Credit (see Chapter 2).

Key features of the Single-tier State Pension (STP)

9. The White Paper stated that the STP would be introduced "in April 2017 at the earliest".[10] However, on 18 March 2013, the Government announced that implementation

8 HM Treasury, *Budget 2010*, HC 61, June 2010 , paras 1.106-7

9 A predecessor scheme, Graduated Retirement Benefit (GRB), operated between 1961 and 1975

10 DWP White Paper, Executive Summary, p 8

would be brought forward to April 2016. The Minister said in a letter to the Chair that "the positive response to our proposals has reinforced the need to reform the State Pension as soon as possible to provide a clear foundation for pension saving".[11]

10. The key features of the STP are as follows:

- Only those reaching State Pension Age (SPA) after the implementation date will be eligible for the Single-tier Pension;
- It will be set above the basic level of the Pension Credit Standard Minimum Guarantee, currently £142.70 per week for a single person;
- It will replace both the Basic State Pension and the State Second Pension, and contracting-out will end;
- The Savings Credit element of Pension Credit will close to pensioners reaching SPA after the implementation of the STP;
- It will require 35 qualifying years of National Insurance contributions (NICs) or credits for the full amount;
- There will be a minimum qualifying period of between 7 and 10 qualifying years;
- It will be based on individual qualification, without the facility to build a pension entitlement based on a spouse or civil partner's NICs, or to inherit or derive such rights;
- Transitional arrangements will protect the position of those who have a pre-implementation NICs record;
- People will continue to be able to defer claiming their State Pension and receive a higher weekly amount in return. However, it will no longer be possible to receive deferred State Pension as a lump-sum payment;
- The STP is intended to cost no more than the current State Pension arrangements.[12]

Our inquiry

11. At the same time as the White Paper and draft Bill were published in mid-January 2013, the Minister for Pensions wrote to the Chair of the Committee formally asking us to carry out the pre-legislative scrutiny of Part 1 of the draft Bill. We were asked to complete this scrutiny by the start of the Easter parliamentary recess (26 March) to enable the Government to take account of our recommendations and then to introduce the finalised Pensions Bill at the beginning of the 2013-14 parliamentary session in May.

11 Ev 97-99; see also HC Deb, 19 March 2013, cols 43-46WS

12 DWP White Paper, Executive Summary, pp 8-9

12. We issued a Call for Evidence a few days after the draft Bill was published. We received 40 written evidence submissions from a range of organisations, as well as a large number of personal submissions from individuals, setting out how they believed the reforms were likely to affect them. We held three oral evidence sessions with: experts, commentators and organisations representing individuals particularly affected by the reforms; representatives of the pensions industry and employers; and Steve Webb MP, Minister for Pensions. A full list of witnesses is set out at the end of this report.

13. We are grateful to everyone who contributed to this inquiry, particularly as it has of necessity taken place over a very condensed timescale. We would also extend our thanks to the Bill Team and policy officials at the Department for Work and Pensions (DWP) for their assistance with the pre-legislative scrutiny process.

14. Our specialist advisers for this inquiry were Alan Woods and David Yeandle OBE.[13] Their advice and support during the scrutiny process has been invaluable.

Our approach to this report

15. **We agreed to the Government's request that we undertake the pre-legislative scrutiny of this important reform. However, the Government has made it very difficult for us to carry out this task effectively. First, we were asked to report our findings to an extremely compressed timetable, to accommodate both the delays in the Government bringing forward its proposals and the Government's intention to introduce the finalised Bill at the start of the next parliamentary session in May 2013. Then, on 18 March 2013, a week before the date specified by the Government for us to conclude our work, and after we had finished taking evidence and our report was largely drafted, the Government announced that the implementation date for the Single-tier Pension was being brought forward by a year, from April 2017 at the earliest, as set out in the White Paper, to April 2016.**

16. **It is clearly not possible for parliamentary committees to conduct effective scrutiny when the Government makes such a significant change to reform proposals a week before the deadline it has itself set for the scrutiny process to be completed. Nevertheless, we believe that our recommendations remain valid and that it is important that our findings are available to Parliament when it begins its scrutiny of the final legislative proposals for such a major reform of State Pensions. We therefore decided to proceed with publication of our report.**

17. Tens of millions of people will be affected by the introduction of the STP. In fact the only people who will not be affected are those who reach State Pension Age before the new policy is implemented. The impacts of the STP are therefore wide-ranging, differ widely

13 Relevant interests of the specialist advisers were made known to the Committee. The Committee formally noted that Alan Woods declared the following interests: Governor at the Pensions Policy Institute (unpaid); volunteer at The Pensions Advisory Service; consultancy work for the National Association of Pension Funds; specialist adviser at The Pensions Regulator; Fellow at SAMI Consulting; deferred member of Civil Service Pension Scheme; and that David Yeandle declared the following interests: member of NEST Corporation's Employers' Panel; Governor and member of the Council of the Pensions Policy Institute.

between groups in terms of gains and losses, and will affect people in different ways at different stages of the transition.

18. The compressed timetable imposed on us by the Government meant that we had only two months to carry out the whole pre-legislative scrutiny process. It was important to allow interested organisations and individuals time to submit their views to us. This left us about four weeks to hold oral evidence sessions and to draft and agree this report. We have therefore had to limit the scope of this report to the matters we regard as a priority within the Single-tier reform proposals.

19. **The STP brings welcome simplicity and clarity but introducing a new system at a single point of time, with set eligibility criteria, also creates a number of "cliff edges" — cut-off points where people lose or gain entitlement because of their age at a particular point, their spouse or partner's age or circumstances, or because they just meet or fail to meet a certain eligibility criterion. We therefore decided that this report should consider how potential adverse impacts on particular groups of individuals, and the effects of cliff edges, might be addressed in the legislation.**

20. ***It has not been possible for us to take further evidence on the implications of the earlier implementation date for the STP because the Government announced it after we had completed the evidence-taking for our inquiry. The change is particularly significant for the pensions industry and employers because of the adjustments which they will need to make to workplace pensions schemes to take account of the ending of contracting-out, but it clearly also has implications for many groups of individuals. We consider it imperative, therefore, that the Government carries out a further Impact Assessment of the Single-tier Pension proposals. This should take particular account of the impact of the changed timetable on the pensions industry and employers. The revised Impact Assessment should be published at the same time as the finalised Bill is introduced in May 2013, together with the other additional analyses of impacts and costing of options by DWP which we have indicated are required.***

Structure of the report

21. In Chapter 2 we assess the key overall impacts of the reforms. Chapter 3 highlights issues on which clarity about the Government's proposals is needed now. Chapter 4 examines the arrangements for ending contracting-out. In Chapter 5 we assess improvements which might be needed to the Single-tier proposals. In Chapter 6 we explore how the transition to the new system might be smoothed for some of those groups who may be adversely affected or who believe they may lose out.

22. The DWP White Paper, and accompanying documents, provide a detailed description of how the Single-tier Pension and the transitional arrangements will operate. We did not consider it necessary to repeat this detail at length in this Report. The relevant sections of the White Paper and other DWP sources are referenced where appropriate.

2 Overall impacts of the reform

Greater simplicity and clarity

23. The Government's Green Paper on State Pension reform identified "complexity and uncertainty of outcome" and "high levels of means-testing" as two of the three key problems with the current State Pension system.[14] The White Paper says that the simple flat-rate amount that the Single-tier Pension (STP) will introduce will "provide clarity and confidence to better support saving for retirement".[15]

24. Many witnesses welcomed the greater simplicity and clarity that the STP would bring. The TUC stated that simplification was "an extremely worthwhile objective" and its benefits should not be undervalued. Carers UK agreed. Dr Ros Altmann believed that the aims of the policy, in establishing "a simple State Pension that people understand and can then build on and plan for" were "important and valid".[16] Witnesses from the pensions industry agreed that simplicity brought significant advantages but they also emphasised that the transition from the old to the new system would necessarily be long and very complex.[17]

Interaction between State Pension reform and automatic enrolment

25. The Minister emphasised several times in his oral evidence that State Pension reform and automatic enrolment into workplace pensions are intended to be complementary policies. Auto-enrolment implementation began in October 2012 with the largest employers. The process is due to be completed for all existing employers by April 2017. By the end of the implementation process, an estimated 6-9 million people will be saving into a workplace pension scheme for the first time, or saving more into their existing scheme. The Government says that "Automatic enrolment will make pension savings the norm for millions of people". [18] However, the Green Paper on State Pension reform made clear that "automatic enrolment will only succeed if today's workers feel confident that it will be worth their while saving and if they understand how much they need to save to fund their aspirations for retirement".[19]

26. In our report on Automatic Enrolment published in March 2012, we emphasised the importance of its introduction being accompanied by State Pension reform. However, at that time it was still not clear what the Government's timescale or chosen option for State Pension reform were. We stressed the urgency of the Government giving clarity on its

14 DWP, *A state pension for the 21st century.* April 2011, p 13 ("DWP Green Paper"). The other problem identified was "significant inequality".

15 DWP White Paper, p 8

16 Qs 44, 48, 50

17 Q 101

18 DWP, *Supporting automatic enrolment: A call for evidence on the impact of the annual contribution limit and the restrictions on transfers on the National Employment Savings Trust*, November 2012, Foreword and Executive Summary, para 1. For the timetable for auto-enrolment implementation see DWP, *Automatic Enrolment into a workplace pension: key facts, September 2012,* p 6

19 DWP Green Paper, Executive Summary, p 8

intentions, to ensure that individuals could make informed decisions about workplace pensions and retirement saving and to assist advisers in giving sound, long-term advice to individuals. We urged the Government to proceed with its reform of the State Pension without delay and to introduce its Bill on State Pension reform in the 2012–13 session of Parliament.[20]

27. In bringing forward the Single-tier proposals, the Government has acknowledged that "complexity within the current state system means that there remains a concern that some people newly automatically-enrolled into a pension will not gain from saving or will not perceive that they will gain." It highlights that the planned reforms to the State Pension "will work with automatic enrolment to boost pension-saving among low and medium earners".[21] The Minister told us that the STP was "the perfect complement to the automatic enrolment policy" and that "we see the two as twin policies". He emphasised that the amount that people will receive under the STP should be assessed in conjunction with the additional amount that many people will receive from their private pension as a result of auto-enrolment.[22]

Pension Credit and reliance on means-tested benefits

28. Pensioners with relatively low incomes may qualify for means-tested support through the Pension Credit. This has two elements:

- The Guarantee Credit tops up weekly income to a "standard minimum guarantee" (£142.70 a week for a single person, £217.90 for a couple, in 2012/13). Additional amounts are payable in respect of severe disability, certain caring responsibilities and housing costs. The earliest age from which it can be claimed is linked to the State Pension Age for women.
- The Savings Credit aims to provide an additional amount for those aged 65 or over who have made some provision for their retirement. The maximum Savings Credit for a single person in 2012/13 is £18.54 a week.[23]

29. One of the motivations for State Pension reform is the Government's concern that the "interactions between Pension Credit and the state pension further increase complexity, making it more difficult for people to understand what they will get from the state when they retire, and more difficult to see the value of saving."[24]

Abolition of Savings Credit

30. Pension Credit will continue to be available under the STP but it will be in a simplified form and Savings Credit will be abolished. The aim of Savings Credit when it was

20 Eighth Report of Session 2010-12, *Automatic Enrolment and NEST,* HC 1494, paras 30-31

21 DWP, *Enabling and encouraging saving: the evidence around pension reform and saving*, February 2013, p 4; and DWP Press Release, 14 February 2013, "Government's pension reforms will give lower paid bigger incentive to save"

22 Qs 158, 227, 232

23 House of Commons Library Standard Note, *Single-tier State Pension*, February 2013, SN 6525, pp 3-4

24 DWP White Paper, p 24

introduced was to encourage saving by removing the cliff edge which had previously meant that those with income above the Basic State Pension, but below the Standard Minimum Guarantee, had this income withdrawn pound for pound if their income went above the basic means-tested sum. The White Paper says that, in practice, the Savings Credit has broadened the range of pensioners eligible for means-testing. It highlights that single people with income of nearly £190 per week may qualify for some Savings Credit.[25]

31. Around 40% of current pensioners are eligible for Pension Credit but about a third of those eligible do not claim, which means they lose out on an average of £34 a week. Total expenditure on Pension Credit in 2010/11 was £8.3 billion. The most recent Government estimates of take-up of Pension Credit are for 2009-10 when it was between 62% and 68%, with unclaimed expenditure totalling between £1.9 and £2.8 billion.[26]

32. The DWP Impact Assessment (IA) of the Single-tier Pension proposals says that, under the current system, eligibility for Pension Credit would have been at 15-20% in the mid-2020s before falling to around 10% by 2060. The introduction of the STP will mean that eligibility for Pension Credit will be "halved overnight" and then fall to around 5% by 2060.[27]

33. The TUC believed that reducing dependence on means-tested support "is perhaps the most significant benefit" of the STP, particularly because so many people who are eligible for Pension Credit do not claim it. It also agreed that its introduction was "crucial to the success of automatic enrolment".[28]

34. The Institute for Fiscal Studies (IFS) highlights that removal of the Savings Credit "on its own will reduce the maximum income at which someone will be entitled to means-tested benefits, and so on its own should reduce means-testing"[29] Age UK agreed that the number of pensioners claiming means-tested benefits would fall because Pension Credit would become "less generous rather than due to a higher State Pension".[30] In oral evidence, Sally West, Age UK's Income and Poverty Strategy Adviser, highlighted that "some of the lower earners who will be worse off [under STP] will be those who lose Savings Credit". She pointed out that this might mean that some people reaching pension age just after the reforms were implemented would lose £18 a week in Savings Credit.[31]

Interaction with other means-tested pensioner benefits

35. Pensioners on low income can also claim Housing Benefit and Council Tax Support. Age UK emphasised that the abolition of Savings Credit has implications for entitlement to Housing Benefit and Council Tax Support because the rates are linked. It argued that the

25 DWP White Paper, p 24

26 HC Deb, 14 February 2013, col 774w; see also DWP Annual Report and Accounts 2011-12, p 134

27 DWP, *Impact Assessment, Single-tier State Pension*, January 2013, p 6

28 Ev 87. In this report, Ev xx is used for references to written evidence submitted by oral witnesses and printed with this report; Ev wxx is used for references to written evidence published in the volume of additional written evidence on the Committee's website at www.parliament.uk/workpencom

29 Ev 65

30 Ev 56

31 Q 52

level of the STP, combined with transitional protection for means-tested support "needs to ensure that those with very modest incomes reaching SPA in the early years of the single-tier are no worse off than under the current system".[32]

36. The White Paper states that "similar [means-tested] support will exist after the single-tier pension is implemented, though in revised form in accordance with measures set out in the Welfare Reform Act 2012". It mentions that "for a transitional period of five years from the implementation of single tier, support will be retained for those people who may have received more help with certain housing costs by virtue of the availability of the Savings Credit under the current system".[33] However, no further details are provided.

37. We asked the Minister what this transitional support would mean in practice. He told us that this was intended to reflect the threshold in Housing Benefit which takes account of Savings Credit, to ensure that it is not clawed back. He said that "the risk was, if we scrapped Savings Credit and then reduced all the Housing Benefit thresholds by that amount as well, we ended up with a large number of low-income losers, and we felt that was too brutal". So for a period "of the order of five years", the element which reflects Savings Credit will be retained in Housing Benefit premiums. However, the "exact mechanisms" for the transition at the end of the five years was still "work in progress".[34] The Minister also acknowledged that more consideration needed to be given to how pensioner passported benefits, including those administered by other government departments, would be dealt with under the STP.[35]

38. ***Pensioners on low incomes who are entitled to Pension Credit are often also entitled to other means-tested support, particularly Housing Benefit and Council Tax support, as well as other passported benefits. The Government has indicated that there will be transitional protection for people who would have been entitled to both Savings Credit and Housing Benefit under the current system. However, the details of how this will work in practice are not clear. We recommend that the Government develops and publishes a clear explanation of how means-tested support, including passported benefits, will operate under the Single-tier, and of the transitional protection that will be put in place, in time for consideration of the final legislative proposals later this year.***

Incentives to save

39. As we have indicated, we made clear in our 2012 report on Automatic Enrolment that reform of the State Pension system would be necessary to support auto-enrolment so that people could calculate with greater certainty whether it would benefit them to save into a private pension and what level of saving might be necessary to achieve the retirement income that they thought they would need.[36] Witnesses in this current inquiry have emphasised that clarity about the amount of income in retirement that the State would

32 Ev 56-7

33 DWP White Paper, Annex 3, para 9

34 Q 237

35 Q 227

36 Eighth Report of Session 2010-12, *Automatic Enrolment and NEST*, HC 1494, paras 30-31

provide is a key element in achieving the policy aim of reducing means-testing and increasing incentives to save.[37]

40. The Minister for Pensions has said that the State Pension reforms, "together with automatic enrolment and wider welfare reforms mean we're giving lower paid people the biggest incentives to save for a generation. We're making it more worthwhile for people, particularly those on low incomes, to save for their old age."[38] The Government has highlighted that people retiring under the current system now lose an average of £3 in benefit entitlement for every £10 they receive in private pension. Under the new system, people who retire in 2060 will on average only lose just over £1.[39]

41. The IFS pointed out that, for those who would have been eligible for both Savings Credit and Guarantee Credit, the abolition of Savings Credit will mean that under the new system they have a marginal withdrawal rate of benefit of 100% for a given increase in private retirement income—a rise from the current 40% rate. So for every additional £1 they receive in private pension saving, they will lose £1 in benefit entitlement.[40] This may only affect a small minority of pensioners, but the impact on them may be significant.[41]

42. The IFS acknowledged that having greater certainty about State Pension entitlement will affect savings behaviour but points out that "the direction of this effect is ambiguous"; it "may increase incentives to save; it may have the opposite effect". But it was unlikely to have "a very big effect" and much depended on individual circumstances, including whether people lived in rented accommodation and might therefore be entitled to Housing Benefit.[42] The Pensions Policy Institute (PPI) agreed that the effect one way or the other was likely to be relatively small.[43]

43. Both Baroness Hollis and the PPI believed the most significant effect on savings would be the enhanced ability of organisations providing advice (such as The Pensions Advisory Service) to give a clear steer to people about the advantages of saving into a workplace pension scheme, because of the certainty and clarity of the STP.[44]

44. The National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI) agreed that the simplicity and clarity of the Single-tier would help make it clearer to people that it paid to save. However, it was not a "silver bullet": it was a necessary but not sufficient condition for improving the context for retirement saving.[45]

45. If people are to be encouraged to save into private pension schemes, it is important that they have confidence in the way the schemes are administered. The Minister acknowledged

37 See for example Qs 92-93 and 94-97 (ABI and NAPF); Q 126 (IoD)

38 DWP press release, 14 February 2013 "Government's pension reforms will give lower paid bigger incentive to save"

39 ibid

40 Ev 71

41 For an explanation of marginal deduction rates and the changes to them that the Single-tier Pension will make, see DWP, *Enabling and encouraging saving: the evidence around pension reform and saving*, February 2013, pp 18-23

42 Ev 65 and Qs 70-71

43 Q 73

44 Qs 69 and 73

45 Qs 94-5

that automatic enrolment and greater reliance in the future by most people on income from workplace pensions meant that the quality of the private pension schemes on offer in Defined Contribution schemes had to be improved to ensure that all the schemes that people were automatically enrolled into (or automatically transferred into) were good schemes.[46]

46. **We welcome the Single-tier Pension (STP) as a necessary complement to automatic enrolment in workplace pensions. We believe that the STP will give people more clarity about the amount they can expect the State to provide for them in retirement so that they are better placed to make decisions about whether and how much to save in a workplace pension or other private pension. The STP is not, however, in itself a "silver bullet" solution to the problem of low saving levels for retirement. Further measures to encourage private pension saving and to increase consumer confidence in the pensions industry, including through improved governance of pension schemes, are also required, particularly in the context of people being automatically enrolled into workplace pensions. Earlier education about planning one's retirement income is also needed and should start in schools, as part of a financial education curriculum. We will address these issues in our forthcoming report on governance and best practice in workplace pension schemes.**

Winners and losers

47. DWP has published an Impact Assessment (IA) for the Single-tier Pension.[47] This showed that, in the short and medium term, the overall impact of the reform is a more generous State Pension for most people. The STP will be of most benefit to individuals who would not have been able to build up much entitlement to State Second Pension under the current system, particularly women.[48]

48. In broad terms, the introduction of the STP will on average have only a modest impact on the State Pension entitlement of most people, whether they gain or lose. The IA shows that, although most pensioners who retire in the next 40 years will have increased notional State Pension compared to the current system, the increases will mostly be small and there will be some who will also have reduced notional pensions. Most people who retire in 2060 will be slightly worse off in the single-tier system, compared to the current arrangements.[49]

46 Q 270

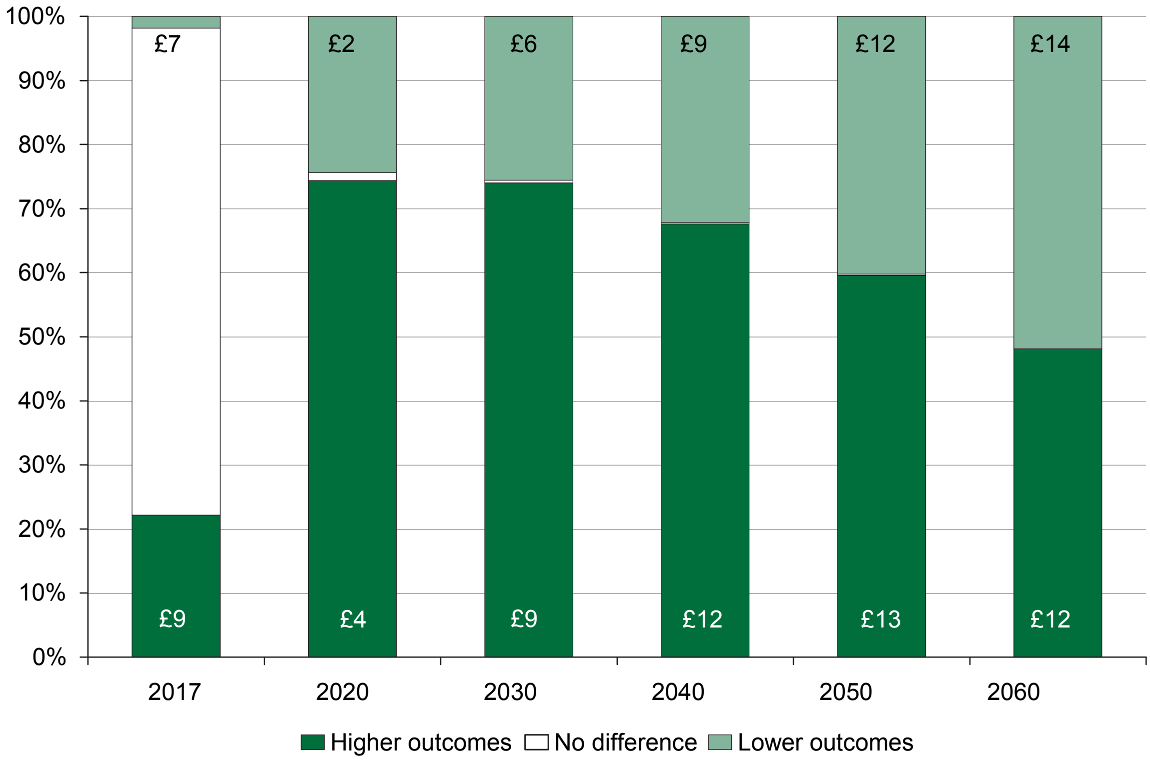
47 DWP Impact Assessment, Single-tier State Pension, January 2013

48 DWP Impact Assessment, Chart 3.1, p 17 (reproduced in para 49 of this report)

49 DWP Impact Assessment, Chart 3.1, p 17

49. The chart below summarises the overall position.

Chart: Proportion of pensioners with changed notional State Pension outcomes under the Single-tier Pension compared to baseline: median weekly change for those with higher or lower notional outcomes (in 2012/13 earnings terms)



Source: DWP Impact Assessment, Chart 3.1

50. Analysis by the IFS and the PPI indicates the following categories of winners and losers:

Winners

- People who have already had significant periods of low earnings or employment gaps, particularly women and carers, who were not well covered by SERPS or S2P credits.
- Self-employed people, who will be brought fully into the State Pension under the new system and are therefore more likely to receive a higher amount.
- People who were previously contracted-out of the S2P (and SERPS), particularly those who have time to build-up more pension after the STP introduction date.

Losers

- Individuals who may have been eligible for Savings Credit.
- Individuals with fewer than 7-10 qualifying years.

- Employees with significant periods contracted-in who will not be able to accrue any further Additional State Pension after 2017.

- Younger people who entered the labour market after 2002, who would have been able to build up high S2P entitlements under the existing system (because each year of accrual in the new system will be worth £4.11, compared with £5.05 for low earners and £5.81 for higher earners, under the present system).[50]

51. Chris Curry, Research Director of the PPI, told us that the effect of the reforms was essentially a continuation of the process begun in the 2007 Pensions Act, to equalise income from the State Pension by extending coverage of the Additional State Pension. The difference was that this would occur much more quickly under STP. This more rapid process "helps a lot more people in the short term" but it would be "less generous in the longer term than the existing system would have been" because overall expenditure on State Pensions will be constrained.[51] The PPI's overall analysis is that individuals who reach State Pension Age (SPA) in the years just after the introduction of the reforms will be more likely to benefit from the STP, but those who are further from their SPA would have been more likely to have had higher State Pensions under the current system.[52]

52. The IFS's view was more stark: it said that the "the main effect in the long run will be to reduce pensions for the vast majority of people, while increasing rights for some particular groups".[53] Paul Johnson, Director of the IFS, acknowledged that "there is a significant additional amount of money going to the earlier cohort of pensioners" and that "there is a lot of rebalancing happening in the short run, which is giving significant additional money to [...] low earners, particularly those who have taken time out of the labour market before 2002". (2002 was when the State Second Pension was introduced, which broadened coverage of the Additional State Pension, including taking account of NI credits.) But he also highlighted that there would be "a rebalancing away from the whole of later cohorts, but more from the higher earners." [54]

53. The Minister acknowledged that, under the STP, "some people will get less than they would have done" under the current system and that by 2060 the Government will be spending less on State Pensions, with expenditure falling from an estimated 8.5% of GDP under the current system to 8.1% under the STP.[55] But he also pointed out that by 2040 "60% of the lowest-income pensioners will be getting more" under the new system than if the current system had just rolled forward.[56]

54. Several witnesses suggested that comparing outcomes between old and new systems in several decades' time had an element of artificiality. Chris Curry of the PPI pointed out that some of the estimates of losses suffered by future pensioners were based on seeing

50 IFS Observations, January 2013 "Welcome simplification of state pensions but younger generations lose" and Ev 77

51 Q 58

52 Ev 77

53 IFS Observations, January 2013 "Welcome simplification of state pensions but younger generations lose"

54 Q 58

55 Qs 159 and 234. See also DWP White Paper, p 12 and Impact Assessment, p 6

56 Q 235

individuals as "building up less in the future than they might otherwise have done" had the current system stayed exactly the same as it is "for the next 50 years". The Minister and Baroness Hollis made similar points.[57]

55. **The overall impact of the introduction of the Single-tier Pension is that a significant number of people will receive more State Pension, mostly in the short to medium term. We welcome this improvement in State Pension provision, particularly as some of the key gainers will be women, carers and other people with gaps in their working lives, who will benefit significantly. The main losers will be people who are not able to fulfil the minimum qualifying years requirement and "notional" losers who would have been able to accrue higher State Second Pension (S2P) in the current system.**

56. **However, for most people the overall impact, whether they gain or lose, is likely to be marginal. The reform could be seen as evolutionary and simply continuing at a faster rate the redistributive effects of the changes made with the introduction of S2P in 2002, which widened the coverage of the Additional State Pension and made it more flat-rate and less earnings-related. Moreover, while the STP may be higher than the Basic State Pension which some people would have received under the current system, the net amount some of them receive in weekly income from the State may be less, because of the loss of means-tested benefits.**

57. ***The introduction of the STP, the roll-out of automatic enrolment and further increases in the State Pension Age will all significantly affect retirement planning and income, in different ways for different groups over the long period of transition. We recommend that the Government carries out and publishes an assessment of the cumulative impacts of these policies on different population groups, including at a range of income levels, separately for men and women, at 10-year intervals over the period to 2060.***

57 Qs 57 and 236

3 Issues on which clarity is needed now

Balance between detail set out in primary and secondary legislation

58. The Explanatory Notes to the draft Bill explain that most of the provisions "will be brought into force by means of commencement orders made by the Secretary of State", in the usual way for primary legislation.[58] The Government's intention is to introduce the Pensions Bill containing the STP provisions at the beginning of the 2013-14 parliamentary session in May. The expectation is that the Bill will complete its parliamentary stages and obtain Royal Assent by spring 2014.[59]

59. As with much proposed legislation, many details are not included on the face of the draft Bill but will be specified in subsequent Regulations. These details include:

- the commencement date for the STP;
- the minimum number of qualifying years which will be required (although the White Paper indicates that this is likely to be between 7 and 10 years, and 10 years is used for modelling purposes in the White Paper); and
- the starting level rate of the STP (although £144 per week is used in the White Paper for illustrative purposes).

60. The PPI acknowledged that, in proposed primary legislation, there was "always the trade-off between flexibility for implementation and certainty as to what is going on". However, it believed that leaving so much detail to Regulations meant that it would take longer for people to get the certainty they needed to help them to plan and that this:

> [...] does also make analysis of the implications of the Bill quite difficult, because quite small changes, potentially in, for example, the level of the benefit or the indexation arrangements, could have quite significant implications on the number of people who gain or lose at any one particular point in time or the types of groups who end up being gainers or losers.[60]

61. Citizens Advice made a similar point, arguing that, without this greater clarity, "the same difficulties in predicting retirement income will be maintained until the regulations are set, with consequential impacts on preparing for retirement for those approaching pensionable age."[61] Sally West of Age UK said that, although they would not expect key details necessarily to appear on the face of the draft Bill, "they will be really crucial as to whether the reforms achieve the Government's aims" and it was important to have clarity on them now.[62]

58 Draft Pensions Bill, p 116

59 Q 190

60 Q 54

61 Ev w14

62 Q 3

62. The pensions industry and employer representatives took a different view. They believed that the right balance had been struck between the content of the draft Bill and what would be in secondary legislation. Previous examples of primary pensions legislation, notably the automatic enrolment legislation, had attempted to put too much in primary legislation which reduced the flexibility to make the changes which it became apparent were necessary once implementation began. The Institute of Directors (IoD) believed that the draft Bill was the right sort of enabling primary legislation "which then buys us, the stakeholders, time to work through with DWP to ensure the secondary is as robust and fair as it possibly can be".[63]

63. The Minister confirmed that most of the draft Regulations would not be available until much nearer the date of implementation. [64] However, we understand that the ones relating to contracting-out are likely to be published in the summer, for Committee stage of the final Bill, because of the implications for the pensions industry and employers.

64. **Much of the detail of the Single-tier Pension proposals will be set out in Regulations rather than being contained in the primary legislation. We understand the need for flexibility in this respect and the risk involved in Parliament agreeing primary legislation which is too prescriptive and which then has to be amended by further primary legislation. However, a proper assessment of the reforms, by Parliament and stakeholders, will not be possible until the detailed arrangements are finalised and published. The Government's announcement on 18 March that the implementation date for the STP is to be brought forward by a year makes it even more urgent that the draft Regulations are published as soon as possible, particularly those on the detailed arrangements for ending contracting-out which have major implications for pension schemes and employers.**

Implementation date

65. The White Paper says that "the Government intends to implement the single-tier pension in April 2017 at the earliest".[65] In oral evidence on 11 March, the Minister told us that he would be "astonished" if the planned implementation date of April 2017 slipped and that he "would hope to be in a position to be definitive about the start date before we bring the Bill to the House" in May 2013. He acknowledged that pension schemes, in particular, needed certainty about the start date. [66] The Minister also told us that he did not plan to put the implementation date on the face of the Bill: he believed that the Government needed to retain the flexibility to set a different implementation date if this proved necessary because of circumstances that could not be foreseen three years ahead. He said: "You cannot bind a subsequent Parliament anyway, so it would not add a great deal to the certainty. If a future Parliament wanted to stop this, they could do it in a day".[67]

63 Qs 119, 124 and 127

64 Qs 264-8

65 DWP White Paper, Executive Summary, p 8

66 Qs 165 and 269

67 Qs 165-169

66. We were therefore very surprised when, only a week later, on 18 March, the Minister informed us that the implementation date for the STP would be brought forward by a year, to April 2016.[68]

67. ***In his oral evidence to us on 11 March 2013, the Minister gave a very clear indication that the April 2017 implementation date for the STP was fixed. He agreed then that it was very important for stakeholders, particularly pension schemes, to have certainty about the start date. We were therefore very surprised when, a week later, he announced that implementation was to be brought forward by a year to April 2016. We had already decided that the implementation date was one of the key features of the reforms which needed to be set out on the face of the Bill. The Government's decision to make this major change, which has significant implications, at this very late stage of the scrutiny process, makes the case for this even stronger. We therefore recommend that the new implementation date of April 2016 is set out on the face of the Bill, to give the public, the pensions industry and employers the certainty they need about when this major change affecting so many people will happen. Given the likelihood that any delay in implementation, no matter how small, would cause a significant impact on retirement income for the groups which face a cliff edge, including the implementation date in the primary legislation would provide greater assurance that the planned start date will be met.***

Minimum number of qualifying years

68. Clause 2 of the draft Bill sets out that entitlement to the Single-tier Pension will be subject to a minimum number of qualifying years (known as the "de minimis"), to be specified in Regulations. DWP says that the exact number of minimum years required will be decided "shortly before implementation" but has indicated that it will be set at between seven and 10 years. This qualifying period is intended "to ensure that state pension expenditure is targeted at those who make a significant economic or social contribution to the country." The White Paper uses 10 qualifying years as the minimum requirement for modelling purposes.[69]

69. The IFS describes the group affected by the 7-10 year requirement as "probably the greatest losers" as they will receive no State Pension at all under the new system whereas they could have been entitled to up to £32.76 per week BSP under the current system.[70]

70. The DWP Impact Assessment identifies the following key impacts from the 7-10 year requirement:

- Numbers affected and savings in the early years of the policy are expected to be relatively low (rising from zero to around 35,000 people in 2020).

- In 2040 it is estimated that around 380,000 people with a GB State Pension living overseas could be affected.

68 Ev 97; see also HC Deb, 19 March 2013, cols 43-46WS

69 DWP Impact Assessment, para 11 and DWP White Paper, p 29

70 Ev 69

- The expected savings from the de minimis condition in 2040 are around £600 million in 2012/13 prices.[71]

71. The Minister told us that the difference between the numbers affected if the minimum was fixed at 10 years rather than seven was “quite marginal” in terms of “GB residents”. He acknowledged that the de minimis would have an impact on a number of “people who do not live here at all”, but believed that many of these would be in the category of the “Aussie bar-worker” who obtained a few years of NI contributions in the UK and then “never comes here for 40 years”.[72] DWP subsequently provided additional details about the impact of the minimum qualifying years requirement.[73]

72. ***We believe that it is appropriate for a minimum qualifying threshold to be set for the Single-tier Pension. The draft Bill does not specify the minimum number of years required for eligibility, although the White Paper indicates that this will be set between 7 and 10 years. We understand the need for flexibility in setting the minimum number of qualifying years. However, there is nothing in the draft Bill as it stands to prevent the Government of the day deciding to set the requirement at more than 10 years. We recommend that the Bill specifies that the minimum number of qualifying years will be “not more than 10 years”.***

73. **There are a number of people who may currently be expecting a State Pension of up to £35 a week under the current system but who will get nothing in the new system because of the 7-10 years qualifying requirement. Those closest to retirement are of the greatest concern as they have less time to make alternative provision. The Government should set out clear proposals, as part of its communications strategy, for ensuring that people affected are informed of the implications, to enable them to plan ahead, including deciding whether it is appropriate for them to make voluntary National Insurance Contributions**.

74. We discuss the DWP communications strategy for the STP below. National Insurance contributions and crediting arrangements are covered in Chapter 5.

Communications strategy

75. Witnesses stressed that effective communications would be key to the success of the Single-tier Pension, to ensure that it is well-understood and to establish trust in the new system. It is not yet clear what the main characteristics and timescale for the different elements of the DWP’s communication strategy for the new State Pension will be.

76. Aegon believed that “the changes need to be communicated effectively and widely understood in order for any beneficial impact in terms of encouraging private saving to be realised.”[74] EEF’s view was that:

71 DWP Impact Assessment, para 90

72 Q 183

73 Ev 97-98

74 Ev w1

> [...] the Bill should make more explicit provision for the Government to take on a central role in communicating the changes. The transition is a vital one and a clear commitment to meeting the communications challenges should be central to the project, and not one subject to the generic departmental funding pressures prevailing at the time of launch.[75]

The ABI said that "Adequate communication of the change will be essential, or the clarity and simplicity of the new system could be undermined. No-one should feel unclear about the amount they will receive—and therefore the need to save personally themselves".[76]

77. Witnesses emphasised that it was important for the communications strategy to help the public to understand both the overall impact of the changes and what they will mean in terms of individual entitlement. Sally West of Age UK said that "we are finding a lot of people are understandably confused". Many people wrongly believed that introduction of the STP would mean that everyone would receive a State Pension of £144 per week (rather than the current £107) because they did not yet understand the eligibility criteria for entitlement to the full amount. Others were concerned that means-testing was going to end, or that, if they were entitled to more than £144 under the current system, they would lose this. The implications of having been contracted-out, or simply not knowing whether you had been contracted-out or not, was another area of confusion. It was therefore important to "ensure that people have full information about their own future entitlement as well as a reasonable understanding of the reforms".[77]

78. A number of witnesses emphasised that good communications were particularly important, given that the transition would be so complicated. Otto Thoresen of the ABI highlighted that, although the system would be simpler in the end, the transition "gets complicated quite quickly as you work through the permutations". He believed that "finding a way to make that understandable to people so they can trust it is probably the hardest thing in the current environment". He emphasised that the initial implementation period was crucial: "because if we can get the messages right there the longer-term communications should be easier". He also stressed the importance of the new system being perceived as fair by the public. Joanne Segars of the NAPF echoed the view that "there has to be a very carefully managed communications exercise to make sure we can get over these transitional issues" as this was the area of greatest complexity.[78]

79. Representatives of the pensions industry and employers recognised that they had a role to play in ensuring that the new system was properly communicated. Malcolm Small of the IoD said "there is a role for all stakeholders in this, which include organisations such as the CBI and IoD".[79] The NAPF recommended that the Government bring all the key parties together to agree how communications should be co-ordinated. Joanne Segars argued that

75 Ev w18

76 Ev 59

77 Ev 55

78 Q 110-112

79 See Qs 113-114 and 124-125

the earlier the strategy could be sorted out, the better; if DWP waited until all the detail expected in the secondary legislation was available "we simply will not have the time."[80]

80. The Minister pointed out that governments were not permitted to spend money on communications campaigns for policies which had not yet been approved by Parliament and highlighted the importance of providing information that was accurate and definite, rather than subject to change. However, he emphasised that the Government was not "complacent" about this and accepted that "there is an awful lot more communication still to be done". He explained that DWP was looking at web-based options for enabling people to calculate the effect on their STP entitlement of working extra years or making additional NI contributions.[81]

81. The Minister believed there was scope for combining the information people received on the STP with information about their auto-enrolment pension in a similar way to the combined State and company pension information which some employers already provide. He was clear, though, that the Government did not plan to write to all 40 million working-age people at the time of STP implementation to inform them about their STP "foundation amount" entitlement (see Chapter 6).[82]

82. **We agree with witnesses that an effective DWP communications strategy is key to the Single-tier Pension achieving its aims. There is already evidence of confusion about the impact on individuals, with some people believing that everyone will automatically be entitled to £144 a week, and others fearing that they will lose any higher State Pension entitlement they may have built up. Many people do not know whether they are or ever have been contracted-out so are unable to assess the implications for themselves of its abolition. We understand that governments are limited in the resources they can allocate to communications before a policy has been approved by Parliament. Nevertheless, we believe that the significant task of providing accurate and understandable information to the public should begin as soon as possible.**

83. ***We recommend that publication of the Pensions Bill containing the State Pension reform proposals at the start of the next parliamentary session is accompanied by the publication of the high-level DWP communications strategy for informing the public about the reforms. The urgency of ensuring an effective strategy is in place has been increased by the Government's decision to bring forward the implementation date by a year. We recognise that some of the detail will come later, but believe that this high-level strategy should set out the timing for each stage of the communications process, and the broad approaches to be adopted for different groups of individuals. The strategy should also include targeted material to alert people who may lose out under the new system and provide clear advice on any action they can take to avoid this—for example by making voluntary National Insurance Contributions.***

80 Q 113-114

81 Qs 248-9, 251 and 257

82 Qs 254-5

4 Ending of contracting-out

84. A key element of the single-tier reforms is the abolition of the State Second Pension (S2P). This means that contracting-out of the S2P will also end. This is, in general terms, the ability to forgo entitlement to S2P on the basis of the individual being eligible for broadly equivalent occupational pension provision to which the individual and/or their employer contributes. Contracting-out entitles both the employer and the employee to pay lower National Insurance contributions (NICs). DWP estimates that 80% of people reaching State Pension Age in the next 20 years will have been contracted out at some point in their working lives.[83]

85. The Government says that key considerations in the arrangements for ending contracting-out are: minimising the impacts on employers, employees and pension schemes; ensuring that amounts accumulated in occupational schemes up to the introduction of the Single-tier Pension continue to be paid; and ensuring that the sustainability of Defined Benefit occupational schemes is not undermined.[84]

Impact on employers

The statutory override

86. The White Paper states that, for employers, the end of contracting-out will mean an increase in NICs paid for each contracted-out employee of 3.4% of relevant earnings.[85] DWP acknowledges that employers are likely to want "to reduce the level to which they must fund their [pension] scheme by the same amount as the increased National Insurance contributions" when contracting-out ends, either by reducing future pension benefits or by increasing employee contribution rates to pension schemes, or a combination of both. However, some private sector employers are limited by their scheme rules in the extent to which they are able to modify scheme benefits and in many cases scheme rules can only be changed by the scheme trustees or with the trustees' consent. As the changes are likely to be seen by trustees as detrimental to scheme members, they may not be willing to give their consent.[86]

87. Provisions in the draft Bill would give employers a statutory power ("the statutory override") to amend the terms of their workplace pension schemes to increase member contributions or to reduce future service benefits, without trustees' consent if necessary. This power will only apply to changes necessary to deal with the impact of the ending of contracting-out. Employers will have five years from the introduction of the STP in which

83 DWP White Paper, p 38

84 DWP White Paper, p 10

85 DWP White Paper, p 39. Relevant earnings are earnings between the Lower Earnings Limit (LEL) which is currently £5,564 pa and the Upper Accrual Point (UAP) which is £40,080 pa.

86 DWP White Paper, pp 39-41; see also DWP, *Impact Assessment of Abolition of contracting out – consultation on a statutory override for Protected Persons Regulations,* January 2013, paras 12-13

to make the changes to pension schemes, but they will only be allowed to use the statutory override power once. [87]

Statutory override for Protected Persons Regulations

88. There is a specific issue affecting employers in private sector companies which currently employ people who worked for these companies when they were nationalised industries. This group of private sector employers are limited in their ability to change pension scheme rules by legislation made at the time of privatisation, generally referred to as the "Protected Persons Regulations" (PPRs).

89. The Government launched a separate consultation in January 2013 on whether employers who sponsor pension schemes which have "protected persons" as members should be permitted to override the rules relating to this group. The consultation closed on 14 March.[88] We expect the Government will therefore set out its preferred way forward in response to the consultation, so that Parliament can consider this as the Bill progresses.

Impact on Defined Benefit (DB) pension schemes

90. The NAPF set out the context for DB pension schemes in which the ending of contracting-out will be taking place. A recent survey had shown that only 13% of private sector DB schemes are open to new members; 55% are closed to new members but open to future accrual. 83% of DB schemes which are open to new accruals are contracted-out. Of the 13% which are still open to new members, one in five expects to close their scheme to current members and switch to a Defined Contribution (DC) scheme in the next five years. 12% expect to retain their DB scheme but on less favourable terms for existing members.[89]

91. Hymans Robertson, a firm of pension consultants, says that "for the 1 million private sector workers still lucky enough to have DB pensions, the prospects don't look rosy due to the end of contracting out." It believes the extra cost that this will place on employers "may speed up the demise of what remains of DB pensions".[90] EEF (the manufacturers' organisation) agreed that the abolition of contracting-out and the loss of the NIC rebate could lead employers to close DB schemes.[91]

92. DWP acknowledges that "the removal of the contracted out rebate without any mitigating response may create the need for additional funding from DB sponsors [ie employers]". But it believes that "there are much bigger influences on the future of DB schemes, and loss of the [NI] rebate on its own should not, in general, trigger scheme closures."[92] The Minister told us that the decline in DB which had already taken place meant that it could be considered as a "coffin that has got enough nails in it already", but

87 DWP White Paper, pp 40-41

88 DWP, *Abolition of contracting out – consultation on a statutory override for Protected Persons Regulations,* January 2013

89 Ev 73-74

90 Ev w26

91 Ev w18

92 DWP, *Impact Assessment for Abolition of Contracting Out – Consultation on an override for Protected Persons Regulations* , January 2013, paras 57-58

he did not believe that the impact of ending contracting-out would be "seismic" for these schemes. He emphasised that employers who continued to offer DB schemes did it because it was something their employees valued, and as a retention and recruitment tool.[93]

93. Neil Carberry of the Confederation of British Industry (CBI) agreed with the Minister both that "it is debateable whether [DB schemes] have been finished off for good already" and that the cost of the ending of contracting-out on its own was unlikely to "finish off schemes". [94] Otto Thoresen of the ABI told us "I do not see this in itself as something that will trigger a huge further decline in DB".[95] When Joanne Segars of the NAPF gave oral evidence in early March, she said that she also believed that DB schemes would continue. She was clear that contracting-out had to end with the introduction of the STP "because "there is nothing left to contract out of". Her view then was that the key issue for pension schemes was to ensure that the change was implemented in a way that "does not add increased burdens on already hard-pressed scheme sponsors working hard to keep Defined Benefit pension schemes afloat".[96]

94. In oral evidence, representatives of both employers and the pensions industry made clear that they were satisfied with the level of engagement they had had to date with the DWP on the detailed arrangements for contracting-out. They told us that the negotiations had taken place over a long period and that they were broadly content with the relevant provisions in the draft Bill. The IoD said "we are delighted at the way the Department for Work and Pensions and others are working with industry to understand and work through the issues."[97]

95. The NAPF said that the draft Bill provisions "seek to ensure that employers and schemes are able to administer these changes and the transition to a new system in the most cost effective manner" whilst avoiding placing additional burdens on employers who still offer DB schemes.[98] It said that it was now "working very closely with DWP" on the detailed arrangements for contracting-out, to be set out in secondary legislation.[99]

96. However, these views were expressed before the Government's decision to bring forward the starting-date for the STP by a year. In response to this announcement, the NAPF reiterated its support for the reforms but emphasised that "the Government has to ensure that the implementation of these changes is workable for pension funds". It highlighted that the new implementation date created a "very tight timetable" and expressed concern about "whether it can be delivered". Joanne Segars argued that "it is essential to give pension funds the flexibility and time to adapt and make the changes". She believed that "if the Government gets it wrong it risks a fresh round of final salary pension closures in the private sector. Business which get caught on the wrong side of these changes will lose a significant rebate from the end of contracting out, and they will question

93 Q 245; see also Q 241

94 Q 136

95 Q 78

96 Q 76

97 Q 153; see also Qs 76-7

98 Ev 72

99 Q 77; see also Q 80

whether they want to continue running these pensions".[100] The NAPF believed "it would be a shame if big mistakes were made in a rush to implement the changes".[101]

97. **The Government's decision to bring forward the implementation date for the Single-tier Pension after we had finished taking oral evidence and within a week of the deadline for us completing the scrutiny process meant that it was not possible for us to seek the views of employers and the pensions industry about the implications for them of this major policy change. However, it is self-evident that having one year less to prepare for the ending of contracting-out will impose a significant burden on both groups of stakeholders. Having previously appeared to listen and respond to the concerns of pension schemes and employers about the impact of the STP, the Government has now sprung this earlier implementation date on them. We believe it is therefore the Government's clear responsibility to work with these key stakeholders to ensure that the transition to the ending of contracting-out is as smooth as possible and that already beleaguered Defined Benefit private sector occupational schemes do not suffer further adverse consequences.**

Defined Ambition pension schemes

98. The NAPF highlighted that the ending of contracting-out might provide an opportunity for further developing the Minister's ideas for a new form of pension scheme which combined elements of both DC and DB—known as "Defined Ambition". Joanne Segars emphasised that if Defined Ambition was going to be encouraged, this should be done in parallel with contracting-out ending, so that employers did not have to go through two major changes in their pension schemes in rapid succession.[102] In oral evidence, the Minister accepted that he would need to have Defined Ambition in operation by 2017 and said that "we are working non-stop" on the plans.[103] It is clear that the Government's revised implementation date will place even more time pressure on DWP to develop its Defined Ambition proposals. We will explore the potential for Defined Ambition schemes in more detail in our forthcoming report on governance and best practice in workplace pension provision.

Impact on employees

99. Employees starting to pay full National Insurance Contributions as a result of the ending of contracting-out will see an increase equivalent to 1.4% of relevant earnings.[104] The TUC calculates that on average employees will have to pay about £350 a year in additional NI contributions.[105] The PPI estimate was that the maximum additional NICs for employees would be £480 a year.[106]

100 Ev 96

101 Daily Telegraph, 18 March 2013, "Pension firms warn of threat to private plans"

102 Q 79

103 Q 247

104 DWP White Paper, p 42

105 Qs 16-17

106 Q 66

100. The Government points out that "around 90 per cent of those reaching State Pension age in the first two decades after implementation will gain enough extra state pension over retirement to offset both the increased National Insurance contributions they will pay over the rest of their working lives and any potential adjustments to their occupational pension."[107]

101. However, the TUC believes that "removing the need for trustee consent creates a significant risk of material losses for individual members". It accepts that "higher NICs will generally represent good value for money for people currently contracted out" and acknowledges that, on average, scheme members will not be worse off because in general they will be compensated for reduced benefits or higher contributions through higher State Pension outcomes. But it points out that "because offsetting measures will be calculated at scheme level, rather than based on the impacts on individual members, it is highly likely that some members will be made worse off through this process". It believes that these changes "will have an immediate detrimental impact on individual welfare following a long period of wage stagnation, and alongside higher pension contributions in the public sector".[108] A number of other trade unions made similar points in their written evidence.[109]

102. The Minister emphasised that the private sectors employers concerned were not "out to do over their employees" but were simply seeking to offset the additional pension liabilities arising from the ending of contracting-out. They were "the good guys. These are the people who are still running final salary pension schemes".[110]

103. ***We accept that, on average, employees who were previously contracted-out will not lose out in the longer term from having to pay increased National Insurance and pension scheme contributions, because most will gain enough in increased State Pension to compensate for this. However, within this average, some individual employees could lose out and some may face difficulties in the shorter term, especially if current wage restraints continue. We recommend that the Government undertakes more analysis of which employees might fall into this category, so that Parliament can properly consider what measures, if any, might be put in place to limit losses.***

107 DWP White Paper, p 10

108 Ev 87 and 89-90

109 See for example Ev w45 (PFEW); Ev w21 (GMB); Ev w56-7 (Unite)

110 Qs 241 and 243

5 Further improvements which need to be built into the new system

National Insurance issues

104. The number of years required to obtain a full State Pension will increase from 30 years under the current system to 35 years under the STP. This means that it is even more important that people understand what they need to do to obtain a full NI record, either through National Insurance Contributions (NICs) paid or NI credits awarded.

NI crediting arrangements

105. Under the current system, people in a range of circumstances, including those with caring responsibilities or those who are unemployed, on benefits and looking for work, can be awarded NI credits which maintain their NI record and count towards the Basic State Pension (and may also count towards the Additional State Pension, depending on the "class" of credit).

106. The current system of credits is very complex: the White Paper highlights that "HMRC and DWP operate a system of National Insurance credits which apply to over 21 different circumstances from being a carer to serving as a member of a jury". The Government says that: "Crediting arrangements will be brought forward to protect the single-tier pension position of those who cannot work, with the implementation of the single-tier pension potentially providing an opportunity to simplify recording and operating systems". However, the details of how crediting will work are not made clear in the White Paper or draft Bill.[111]

107. Sally West of Age UK believed that information about the availability of NI credits was a critical area.[112] Emily Holzhausen of Carers UK highlighted that claiming the carers credit is a cumbersome process and believed that more information should be made available to carers, particularly through government advice services, to make them aware of when they needed to apply for credits rather than receiving them automatically.[113]

108. Both the PPI and Baroness Hollis emphasised the need for clarity on what would count towards NI credits under the new system.[114] Baroness Hollis highlighted that "women's working lives are infinitely more volatile than men's" because of the caring responsibilities so many of them had for children and/or parents. She believed that the STP would "transform the situation for low-paid women or women who are in and out of the labour market" but only if "there are adequate and appropriate credits and buybacks". [115]

111 DWP White Paper, p 92

112 Q 12

113 Q 14

114 Q 58

115 Qs 58 and 63

The importance of ensuring that women were aware of the implications for NI credits of the changes to child benefit entitlement was also emphasised.[116]

109. The Minister stressed that the Government was keen to address problems with NI credits because "we want people to claim them". He highlighted that HM Revenue & Customs (HMRC) send out "deficiency notices" to anyone who does not have a full NI record for a particular year. At the moment, these notices do not flag up to people that they can claim NI credits, for example if they are not working because they have caring responsibilities. He believed that it would be possible to improve the information which HMRC sends out, to help people to understand when they needed to claim NI credits and the process for doing so.[117] He also pointed to two further improvements: the STP would simplify the two different NI crediting systems which had operated for BSP and ASP; and the new Universal Credit working-age benefit to be introduced from April 2013 would "expand the scope of crediting".[118]

Voluntary National Insurance Contributions (VNICs)

110. People who have incomplete NI records, or who are unlikely to meet either the minimum number of qualifying years, or the 35 years necessary for full STP entitlement, may wish to make voluntary National Insurance Contributions (VNICs) to build up their NI record. Age UK believed that individuals would need help to decide whether it was worthwhile for them to do this.[119]

111. The Minister highlighted that HMRC had laid new Regulations in February 2013 which will extend the period over which people can buy VNICs. This is intended to reflect the uncertainty about NI contributions which people may have around the implementation date for the STP, and allow them time to assess whether they need to take action to build up their NI record.[120] The Explanatory Memorandum to the Regulations sets out that, in the period before the STP is implemented, DWP "may not be able to provide State Pension Statements that give accurate estimates of Single-tier Pension to those who reach State Pension age on or after 6 April 2017. This uncertainty may make the decision whether to pay voluntary contributions more difficult." To ensure that people who may be affected are not disadvantaged, the time limits for paying voluntary NICs for the 2006-07 to 2015-16 tax years inclusive will be extended until 2023. It will be possible to buy VNICs for these years at 2012-13 rates until April 2019.[121]

Low-earners

112. A number of individuals, the majority of whom are women, have multiple part-time, low-paid jobs from which they earn too little to take them above the National Insurance Lower Earnings Limit (LEL—currently £5, 564 a year) for NI contributions. The TUC said

116 Q 40

117 Q 194

118 Q 199

119 Qs 12-13

120 Q 220

121 Explanatory Memorandum to the Social Security (Contributions) (Amendment) Regulations 2013, paras 7.2-7.4

that the requirement to reach the LEL "prevents many low earners, predominantly women, from accruing state pension entitlements."[122]

113. Age UK pointed out that 16 hours a week at the national minimum wage would leave individuals below the LEL and that "you could have three jobs earning £100 per week, and you are still not getting a [NI] contribution that gives you a right towards a pension." Ros Altmann highlighted that DWP had said that "very few" people were in this position but believed that it was important for this to be quantified. She pointed out that women who were working in multiple low-paid jobs of this kind could actually be in a worse position in terms of their NI record than someone who was not working at all but who was entitled to credits.[123] Baroness Hollis believed that the introduction of Universal Credit and the accompanied use of Real-time Information on PAYE taxation would make it easier to amalgamate information on earnings for women with jobs below the LEL and help ensure that they built up an NI record.[124]

114. The Minister accepted that this was an issue for some people, mainly women, but believed that it affected a relatively small number. He estimated that there were about 65,000 women with multiple jobs below the LEL and suggested that "about three-quarters" were receiving NI credits, for example because they had children under 11, or they were carers.[125] DWP subsequently provided further written evidence which showed that 25,000 of these 65,000 women were not receiving credits. Of these, 15,000 had earnings which, if combined, would taken them over the LEL. Around 5,000 men were in the same position.[126]

115. The Minister highlighted that National Insurance is assessed per job, not by aggregated earned income from multiple jobs and believed it would be very complex to try to change the current system, particularly given the very small number of people affected. However, this was another area in which the introduction of Universal Credit might further reduce the scale of the problem. [127]

116. Following the evidence session, the Minister provided further details about how NI crediting arrangements would change under Universal Credit. Claimants who would not have received NI credits from existing benefits will be automatically credited under Universal Credit. These include Housing Benefit claimants earning below the Lower Earnings Limit and carers on Income Support, who are currently required to make special applications to receive credits. In addition, as Universal Credit will be paid to the household rather than an individual, both partners will receive the NI credit if they are eligible. The Minister highlights that this will benefit "non-working partners of people in low-paid jobs who would not receive a credit from any other source under the current

122 Ev 89

123 Qs 6 and 21

124 Q 54

125 Qs 207, 211

126 Ev 97-98

127 Qs 207, 211

system". The Department expects to lay the Regulations relating to the crediting arrangements for Universal Credit shortly.[128]

117. **It is important that people are given the opportunity to build up a full entitlement to a State Pension, given that the number of qualifying years required for this will increase from 30 to 35. We welcome the Government's willingness to look at how the system of National Insurance credits might be improved, by providing more prompts to people who have incomplete records to take up credits if they are carers or are in other circumstances which give them a crediting entitlement. However, any system which relies on individuals being aware of this facility is likely to exclude many of the people it is intended to help. We are pleased that the Government plans to use the introduction of Universal Credit to widen the scope of the NI crediting system for people claiming benefits and to more fully automate it.**

118. **People in multiple low-paid jobs which all fall below the Lower Earnings Limit do not currently build up a National Insurance record. We accept the Minister's assurance that many of these people, mainly women, often receive NI credits because they meet the relevant criteria. However, DWP estimates that around 20,000 people in this situation do not receive NI credits or make NI contributions. We support the Government's changes under Universal Credit which will mean that many multi-job low-earners are brought within the scope of NI credits, including through the new facility for both partners to receive credits on the basis of a household entitlement to Universal Credit. This is particularly important as the facility to derive State Pension entitlement through a spouse or partner's NI contributions will no longer exist under the STP.**

119. ***We welcome HM Revenue & Customs' acknowledgement that people will require additional time to assess their need to make voluntary National Insurance Contributions (VNICs) around the time of the introduction of the STP, particularly as the implementation date has now been brought forward by a year. The usual six-year period during which it is normally possible to make voluntary NICs has been extended so that VNICs for the years 2006-07 to 2015-16 can be made at any time up to April 2023. We regard this as a very sensible measure which will be of considerable assistance to many people. However, people will need help to understand the implications of the transition to the STP, and many may not immediately appreciate the need to build up more years in their NI record under the new system and in their own right. We therefore recommend that the DWP communications strategy for the STP includes specific provision for a joint campaign with HMRC to publicise this extended opportunity to build up a full NI record.***

Self-employed

120. Self-employed people are one of the key groups to benefit from the STP as they will be brought fully into the State Pension under the new system and are therefore more likely to receive a higher amount. Under the current system, National Insurance Contributions paid

128 Ev 97-8

by the self-employed do not count towards Additional State Pension.[129] However, self-employed people in general currently pay lower NICs than employed people.

121. Paul Johnson of the IFS argued that "the current way of treating the self-employed for National Insurance is a huge open invitation to tax avoidance, because it is so much lower than you pay as an employee". He believed that the STP "may offer an opportunity to close the gap".[130]

122. The IoD, whose members include many self-employed people, said that even the most reluctant "would recognise that, given the improvements we are going to get going forward [from the STP], it is possibly only fair that everybody should be asked to do their little extra bit" in terms of paying the same NICs as employed people.[131] Baroness Hollis agreed that the self-employed should be paying the same as employees but highlighted that self-employment "is not a continuous curve" and that people at one end of the scale often cycled between employment, self-employment and no employment.[132]

123. The Minister said that he was not aware of any Government plans to change the NI contribution rate for self-employed people. This was confirmed in the Budget 2013 which said that "everyone except the self-employed will pay the same rates of NICs from 2016-17".[133] The Minister pointed out that the self-employed "are not in the scope of automatic enrolment" and that they have therefore "always been a problem for pensions policy". He highlighted that low-earning self-employed people actually pay more NI than low-earning waged people do.[134]

124. **Self-employed people are one of the key groups to benefit from the introduction of the Single-tier Pension, as they will be brought fully into the State Pension system. We recognise the principle that this might mean they should pay the equivalent in National Insurance Contributions that employed people will pay. However, we believe that this change should be considered as part of a wider review of how National Insurance could now be simplified.**

Setting and maintaining the differential between STP and Pension Credit

125. The Government has made clear that the full rate of the STP will be set above the basic level of means-tested support (the Pension Credit Standard Minimum Guarantee) because "this will help clarify the incentive to save privately for retirement.[135] The White Paper says that "for illustrative purposes", the assumed starting level for the STP will be around £144 a week (in 2012/13 prices), which is just above the current rate of the Pension Credit

129 DWP Impact Assessment, para 49

130 Q 62

131 Q 130

132 Q 62

133 HM Treasury, *Budget 2013*, HC 1033, March 2013, para 1.191

134 Q 240. For further information provided by DWP on the level of self-employed membership of private pension schemes, see Ev 97-98

135 DWP White Paper, p 28

guarantee.[136] Dr Altmann believed that "the logic of having it just above the means-tested Pension Credit threshold is sound".[137]

126. Age UK supports the single-tier reforms but believes that the level of the STP "needs to be set at a level that tackles poverty, reduces reliance on means-testing, and provides a decent platform for saving". It questions whether £144 per week is enough to achieve this. It points out that the figure used in the Green Paper of £140 per week was £7.40 above the Guarantee Credit figure at the time whereas £144 is only £1.30 above the current level. [138] Sally West said:

> [...] the level needs to be sufficient to take people above means-tested benefits, and act as a platform. If we look at the Green Paper, there was a larger gap. The single tier was about 5% or 6% higher than the basic Pension Credit rate. That probably ought to be the sort of minimum [...] We would clearly like it to be as high as possible, but if you take the Pension Credit as a kind of benchmark, you definitely need a bit of clear blue water between that and the single tier.[139]

Citizens Advice made a similar point.[140] Prof Ginn argued that the starting rate for STP needed to be much further above the Pension Credit rate "in order for people to be certain that it is worth saving". She believed that the gains the Government would make from increased NI contributions "surely would allow a more generous state single-tier pension."[141] The TUC also criticised the "low starting level" for the STP, believing that this means that "the reforms will fail to eradicate means-testing for future pensioners".[142]

127. The Government says that the reforms "have been designed to cost no more overall compared to the existing pension system". As we have indicated, without the proposed changes, expenditure on State Pensions and pensioner benefits would rise from 6.9% of GDP in 2012/13 to 8.5% in 2060/61. Instead, with the STP in place, expenditure will rise to 8.1% of GDP by 2060.[143] Age UK points out that, as well as government spending on State Pensions reducing as a result of the introduction of the STP, revenue from National Insurance will also increase because of the ending of contracting-out: by £5.9 billion a year in 2017; £4.3 billion by 2030; and £5.8 billion by 2060.[144] This will result in a net increase for the Exchequer, even with the additional costs of the STP. Age UK argues that this provides scope for "a higher starting level to be set, or more generous transition arrangements, or both."[145]

136 DWP White Paper, p 12

137 Q 42

138 Ev 54

139 Q 42

140 Ev w14

141 Q 74

142 Ev 87

143 DWP White Paper, p 12 and DWP Impact Assessment, para 17

144 Ev 58. See also DWP Impact Assessment, p 35 and HC Deb, 19 March 2013, cols 43-46WS

145 Ev 54 and 58

128. In the Budget 2013 on 20 March, the Chancellor gave an indication of how the additional NI revenue might be used. He said that “the extra £1.6 billion raised in employee National Insurance will not be kept by the Treasury” but would be used “to support jobs and the small businesses that create them” by establishing an “employment allowance” which will remove “the first £2,000 off the employer National Insurance bill of every company”. The Chancellor did not indicate how the additional NI revenue from employers would be used, although he highlighted that it would cost £3.3 billion for public sector employers to absorb the additional NI costs and that this would need to be taken into account in the next Spending Review.[146]

Indexation

129. The DWP Impact Assessment acknowledges that whether pensioners generally benefit in the longer term from the STP will depend to a large extent on decisions by future governments on uprating. As set out above, the Coalition Government has introduced the “triple lock” for uprating State Pension (the highest of growth in average earnings, CPI price inflation or 2.5%).

130. The IA assumes that the STP will be uprated by the triple lock until 2060. However it states that:

> Future governments will want to consider the level of the single-tier pension and uprating in light of the wider economic factors that are relevant at the time and the legislation will provide this flexibility, underpinned by a statutory requirement to uprate by at least earnings.[147]

Schedule 12 of the draft Bill indicates that the arrangements for uprating will mirror the existing situation: “that the Secretary of State must increase the benefit by a percentage not less than the percentage annual increase in the general level of earnings”.[148] Age UK emphasised that “the uprating policy will be really important because, whatever the starting point is, if it is not triple locked, the relative generosity of the pension will go down over time.”[149]

131. The Minister pointed out that, because the STP is triple-locked but Pension Credit will only be uprated by earnings inflation, the differential between the two was likely to grow quite quickly, given that the average percentage annual increase in the STP was likely to be greater than that for Pension Credit.[150]

132. ***One of the key elements of the Single-tier Pension is that it will be set above the rate for means-tested support, to ensure that incentives to save into a private pension are clear and to complement the aims of automatic enrolment. We believe that the requirement for the level of the STP to be higher than the Pension Credit Guarantee rate is a fundamental***

146 HC Deb, 20 March 2013, cols 941 and 944

147 DWP Impact Assessment, paras 11-12

148 Explanatory Notes to the draft Bill, para 32; see also HC Deb, 13 February 2013, col 715w

149 Q 5

150 Q 229

principle of the reform. We therefore recommend that this principle is set out on the face of the Bill.

133. **The indicative starting rate of the STP at £144 per week is less than 1% above the Pension Credit guarantee rate, a much lower differential than was proposed in the Green Paper. We accept that the effect of the Government's triple-lock is that the STP may increase more quickly in value than Pension Credit, because the STP will be triple-locked and increase each year by the higher of earnings, inflation or 2.5%, whereas Pension Credit will be indexed to earnings inflation. We also accept that pensioner income from the STP will be increasingly complemented for many people by private pensions saving, including from automatic enrolment.**

134. ***However, there is no certainty about how long the triple lock will be in place and we believe that it is important that there is as much clear water as possible between the rate of the STP and that of Pension Credit. There appears to be scope for a bigger differential (either at the outset or over time) given the increased National Insurance revenue that the Government will derive from the ending of contracting-out and the overall long-term savings which will be made on State Pension expenditure as a result of the introduction of the STP. We therefore recommend that, when the Bill is before Parliament in the summer, the Government publishes an analysis of (a) the cost of setting the STP rate at a range of higher levels; and (b) the level at which the STP could be funded if the additional NI revenue was used for this purpose.***

Uprating of State Pension for UK pensioners living in countries where it is currently frozen

135. About 1.2 million British state pensioners live abroad. In the EEA and 16 countries with which the UK has bilateral agreements, UK State Pensions are uprated in the same way as for state pensioners living in the UK. However, about 560,000 UK state pensioners are living in countries where their UK State Pension is not uprated. This means that their UK State Pension is paid at the same rate as when they first became entitled. Most of the people affected live in Australia, Canada, New Zealand and South Africa.[151] The Government estimated in 2012 that it would cost £655 million a year to uprate these pensions.[152]

136. The Explanatory Notes to the draft Bill indicate that the effect of Clause 20 is that there will be no change to these uprating arrangements: "For overseas residents, regulations may provide that such a person is not entitled to up-rating. This will enable similar provision to be made as under the current retirement pension system".[153] The Minister confirmed in oral evidence that this was the case.[154]

137. We have received evidence from organisations representing UK pensioners in the affected countries, as well as a number of submissions from individuals affected by frozen

151 Ev w27 (ICBP) and Ev 97-98. See also House of Commons Library Standard Note SN/BT/1457, 27 July 2011, *Frozen Overseas Pensions;* and Qs 258-60

152 HC Deb, 10 September 2012, col 3; see also Q 262

153 DWP, Explanatory Notes to the Draft Pensions Bill, January 2013, p 105

154 Q 260

UK pensions. The International Consortium of British Pensioners says that "the legislation freezing pensions causes great hardship on those affected". It recommends that the relevant provision is removed from the proposed legislation.[155] The Canadian Alliance of British Pensioners believes that the current reform of State Pensions "is a once in a generation opportunity to do what everyone knows is right: unfreeze the pensions of those who live in countries in which pensions are currently frozen" and address the "illogicality" of the current arrangements for overseas UK pensioners.[156] The British Australian Pensioners Association similarly argues that the system is unfair and complicated and that "the countries where the state pension is frozen has no logical or reasonable basis".[157]

138. **We understand the frustration of UK pensioners living in countries where their UK State Pension is not uprated. The fact that these pensions are frozen in countries including Australia, Canada, New Zealand and South Africa, but are uprated in many other countries, is clearly an anomaly. While the introduction of the STP presents an opportunity to remove this anomaly, any change would only apply to those reaching State Pension Age after the STP implementation date. Any decision on the situation of those who are already claiming a UK State Pension overseas which is not uprated would need to be taken separately and on its own merits.**

155 Ev w27

156 Ev w45

157 Ev w10-11

6 Smoothing the transition to the new system

139. This chapter looks at ways in which individuals might be helped to understand the necessarily complex and lengthy transitional arrangements for the Single-tier Pension, with a focus on specific groups of people who may potentially lose out as a result of the reforms, or perceive themselves as losing out.

140. Witnesses emphasised that, although the new system will bring very welcome simplification, “it is incredibly complex to get there” because of the length of the transition period, the number of people affected, and the complexity of the existing State Pension arrangements.[158]

141. Otto Thoresen of the ABI drew attention to “the issue of fairness”. He said that “everybody accepts that decisions have to be made and balances struck, but it is about sensing that we have gone through a process that made those knowingly and, if there was something seen to be unfair, it was given consideration and dealt with”.[159] Malcolm Small of the IoD agreed that, in making a change of this kind “we have to accept that somewhere along the track some people will of necessity lose out”. However, the key was “to minimise that number of people and make it as fair as we can in implementation.”[160]

142. Otto Thoresen believed that “the challenges will be around the transition”, particularly over the first 10 years, when not many people would yet be experiencing the benefits of auto-enrolment: “in the short term we will have to be very careful about how this pans out and how the impact is felt”. He said that he was most concerned about the “lower earners” who would have fewer options and were less likely to have other means of support, and might therefore find themselves disadvantaged. He believed that “seeing what can be done for those to manage the transition is very worthwhile”.[161] Age UK agreed that DWP might need to do more to support the “transitional generation” to ensure that there was not “a stark difference between people reaching State Pension age before and after the implementation date.”[162]

Calculation of the foundation amount for the STP

143. Although the overall aim and effect of the Single-tier will be to simplify State Pension provision, the reform will require complex calculations to be made, to take account of the wide range of accumulated individual entitlement to BSP and Additional State Pension. This calculation will need to be made for everyone of working age—about 40 million people.[163] The only people who will not be affected by transitional arrangements are those

158 See for example Q 93 (ABI); Q 113 (NAPF);

159 Q 112

160 Q 154

161 Qs 101-102 and Q 112

162 Q 52

163 Q 253

who reach SPA before implementation (now expected to be April 2016) and those who have not yet reached working age or have no NI record by this date.

144. The transition process will use an individual's pre-implementation NI record to calculate a Single-tier starting amount based on the rules of the new system. Individuals who have previously been contracted-out will have a deduction applied, to take account of the lower NICs paid whilst they were contracted-out. The Government will then check to see whether the rules of the current system would give a better outcome. If so, that valuation will become that individual's "foundation amount". The White Paper explains in detail how this process will work and provides case studies.[164]

145. People whose foundation amount is less than the full STP will be able to increase their entitlement up to the full level of the STP, at the rate of 1/35th of the full rate (£4.11) for each additional qualifying year they gain before reaching their SPA. People whose foundation amount is higher than the full STP will receive the difference between their foundation amount and the full STP amount as an extra payment (the "protected payment") on top of the full Single-tier weekly amount.[165] The Government estimates that 5% of people retiring between 2017 and 2060 will receive a full STP plus a "protected payment" as a result of having a record of NI contributions of more than the full STP at the time of implementation. This means that they will receive more than the full STP equivalent rate of £144 per week.[166]

Rebate Derived Amount

146. In calculating the STP foundation amount for a person who has had periods contracted-out, DWP needs to put a value on the National Insurance rebate they have received or the reduced contributions they have paid in applicable periods for the duration of the Additional State Pension from 1978 to the implementation date for the STP, now expected to be April 2016. The total of this is known as the "Rebate Derived Amount". This will be subtracted from their STP valuation. DWP says that "this approach will ensure that people with periods of contracting out are not able to benefit at a disproportionate rate to others".[167]

147. The ABI wanted the Government to clarify how the Rebate Derived Amount will be calculated. It believes it should be "based on the rebates actually received and not the Additional State Pension foregone, which is likely to have been higher". It argued that the amount allowed needs to be "realistic and ensure that people do not disproportionately lose out as a result of contracting-out".[168] In oral evidence, Otto Thoresen explained that the rebate had been based on "a set of assumptions" that a contracted-out individual would get the equivalent in terms of private pension to the Additional State Pension that they had given up. However, these assumptions "have not proven to be anything like the reality", because of the level of returns on pension investments over the last 10-15 years and the low

164 DWP White Paper, pp 11, 14-17

165 DWP White Paper, p 11

166 HC Deb, 11 February 2013, cols 510-11w

167 DWP, *Single-Tier Transition—Technical Note*, January 2013

168 Ev 59

rates of annuities. He argued that "the one thing that is factually there is the amount of money these people have been given to invest in their personal pension to replace whatever they have given up"—the NI rebate they have received.[169]

148. ***The foundation amount calculated for each individual will be a key factor in determining how much Single-tier Pension they receive and whether this is more or less than the standard STP rate. For people who have had periods contracted-out of the State Second Pension (and/or SERPS), and who have therefore paid a reduced amount of National Insurance, the DWP will have to calculate how much this rebate is worth (the Rebate Derived Amount). It is important that this amount is calculated in a transparent way that everyone accepts is fair. We recommend that the Government sets out in simple language the basis on which the Rebate Derived Amount will be calculated, so that Parliament can assess the fairness of the approach. We also recommend that a report from the Government Actuary is laid, giving an assessment of the actuarial fairness of the proposed approach.***

Derived rights

149. Under the STP, an individual's entitlement will be solely based on their own NI record. In the current system, it is possible to obtain a State Pension based on the contributions of a spouse or civil partner—these are known as "derived rights" and apply in different ways to both Basic and Additional State Pension. The transitional arrangements for derived rights under the STP are necessarily complex, in order to deal with the range of circumstances faced by individuals (and they take up many of the draft Bill clauses). The basic principles are summarised in the White Paper.[170]

State Pension entitlement based on spouse's NI contributions

150. Age UK believes that "transitional provisions should ensure that there is protection for everyone who has a legitimate expectation of receiving a pension based on their partner's contributions and will not have sufficient years between implementation and their SPA to be able to accrue a single-tier pension of at least the same amount."[171]

151. Witnesses expressed concern about a particular group of women who were expecting to rely on their spouse's NI contributions to give them a Basic State Pension. This is currently 60% of the BSP while their spouse is alive (£64 a week) and 100% if they are widowed (£107 a week). This will not be part of the new system.

152. Sally West of Age UK believed that it was "really important" that people in the position of expecting to use their husband's contribution records "do not suddenly find they are left without a pension at all". She accepted the need to end derived rights under the STP but believed that, "where people have that legitimate expectation that they would receive a pension on their partner's contributions, it seems very unfair to suddenly say, 'We are changing the rules and you should have done something different for the last 40 years'".

169 Q 117

170 DWP White Paper, Annex 3D

171 Ev 56

This was a short-term issue, because women would build up their own NI records in the STP but “we need protection for people who are heading towards pension age and are not able to change their plans.”[172]

153. The Minister stressed that not many women fell into this category: by 2020 “about 30,000 women” will get less under the STP than they would have done under the derived entitlement in the current system. Moreover, many of these women lived overseas and some had never lived in the UK at all, because the entitlement was solely based on the spouse’s NI contributions.[173]

154. The White Paper indicates that a solution has already been put in place for another group of women who might have been adversely affected: employed married women who chose to pay reduced rates of NI on the assumption that they would receive a derived pension based on their husband’s contributions (known as the Reduced Rate Election (RRE) or, more colloquially, the “married woman’s stamp”). The option to do this ended in 1977 but there are still a very small number of women who are paying the RRE. The White Paper makes clear that provision will be made for them under the transitional arrangements:

> Where a valid election existed at any point in the 35 years before State Pension age, they will be able to access a single-tier pension based on their own contributions to the point at which the single-tier pension is implemented. This will include an amount equivalent to the full rate of the ‘married woman’s’ lower-rate basic pension or, if widowed or divorced, the full rate of the basic State Pension. If they would also qualify for a single-tier pension based just on their own contributions, they will receive the higher of the two.[174]

155. ***We welcome the Government’s sensible transitional solution to the potential adverse impact on employed women who chose to pay reduced NI contributions under the Reduced Rate Election (or “married woman’s stamp”) arrangement, on the understanding that they would be able to derive a pension based on their husband’s contributions. We believe that it should also be possible to find a solution for another small group of women: those who did not build up their own NI record because they had a legitimate expectation that they would be able to rely on their husband’s contributions to give them entitlement to a Basic State Pension. One option might be that women in this position who are within 15 years of State Pension Age should be able to retain this right. We recommend that the Government assesses and publishes the cost of providing this option for the relatively small number of women affected. We believe that, for those further from retirement, there is sufficient time for them to plan on the basis of the new rules.***

172 Qs 34-38

173 Qs 177-180

174 DWP White Paper, pp 93-94

Women born between 1952 and 1953

156. We received a number of submissions from women in a particular age group, highlighting the dual adverse impact on them of the more rapid increase in their State Pension Age (SPA) to 65 and then 66, and their non-eligibility for the Single-tier Pension. There are two separate cohorts of women who believe they are adversely affected: those born between April 1952 and July 1953; and a smaller subset born between April and July 1953 who believe they will suffer a more severe loss. DWP responded to the concerns raised by these women by conducting and publishing an analysis of their situation.[175]

157. Under the Pensions Act 1995, women's SPA was due to equalise with men's at 65 between 2010 and 2020. The Pensions Act 2007 then legislated for an increase in men and women's SPA to 68 by 2046 in stages:, to 66 over two years starting from April 2024, to 67 over two years starting in April 2034, and to 68 over two years starting in April 2044.

158. In the Pensions Act 2011, the Coalition Government brought forward the increase in the SPA to 66 for both men and women so that the changes occurred between December 2018 and April 2020. To achieve this, the Act also brought forward the increase in women's SPA so that it reaches 65 in November 2018 rather than April 2020.[176]

159. The changes in the 2011 Act meant that women born after 6 April 1953 saw their SPA increase a second time, by between two and 18 months. A group of about 85,000 women born between 6 April 1953 and 5 July 1953 felt particularly aggrieved because they believed they would suffer a double adverse impact, arising from this second change to their SPA, coupled with just missing out on the STP, if the implementation date had been April 2017 (as they would have reached SPA between 6 July 2016 and 6 March 2017).[177] A number of witnesses argued that measures should be put in place to mitigate the impact on this group of women.[178]

160. It appears that the Government's decision to implement the STP from April 2016 instead of April 2017 will address the concerns of the subset of 85,000 women born between April and July 1953. The Government says that the earlier implementation date means that "around 400,000 more people will reach State Pension age under single tier, including every woman affected by the acceleration of the State Pension age equalisation process in the Pensions Act 2011."[179]

161. A larger group of around 430,000 women born between 6 April 1952 and 5 July 1953 are also unhappy that they will miss out on the STP because they reach SPA before it is implemented. Their grievance is that a man born on the same date would be eligible for the STP. However, this is because the man would have had to wait until age 65 to reach his

175 DWP, *Note on the cohort of women born between 6 April 1952 and 5 July 1953*, March 2013, available on the DWP website at www.dwp.gov.uk/policy/pensions-reform/state-pension/

176 See House of Commons Library Standard Note, *State Pension Age – 2012 onwards*, February 2013, SN 6546; DWP *Note on the cohort of women born between 6 April 1952 and 5 July 1953, op cit; and* Pensions Policy Institute Briefing Note No. 60*, What are the implications of the Government's latest legislation increasing State Pension Age*, November 2011,

177 DWP Note, op cit, Annex A

178 See, for example, Q 64 (Prof Jay Ginn); Q 28 (Dr Ros Altmann); Q 30 (Age UK); Q 26 (TUC); Q 64 (Baroness Hollis of Heigham)

179 HC Deb, 19 March 2013, col 43-46WS

SPA, by which time the reform will have been implemented, whereas the women in this cohort reach SPA between 6 May 2014 and 6 March 2017 when they will be aged between 62 and 63 years nine months.[180] (A subset of these women will now have their grievance addressed by the change to the earlier implementation date of April 2016, as described in the previous paragraphs.)

162. Prof Jay Ginn highlighted that this group of women believed that they would lose out on £36 a week in State Pension, which is the difference between the current BSP of £107.45 and the STP of £144.[181] The Government has emphasised that not all of the 430,000 women would have been entitled to a full STP, for example if they have fewer than 35 qualifying years, or have been contracted-out of the Additional State Pension, and so not all would necessarily have been financially better off under the STP. The DWP analysis shows that the median State Pension valuation in the current system for women in this cohort would be £127 per week and their median valuation in the STP would have been £133 per week, so the median loss is around £6 per week. [182]

163. The Government also pointed out that, while these women would not be eligible for the STP, they would be able to claim their State Pension under the current system between 15 months and three years earlier than a man born on the same date. It estimates that this means that, assuming equal life expectancy at age 65, they could receive between £7,000 and £17,000 more than a man in State Pension over the course of their life, even if they are only entitled to a Basic State Pension of £107 per week. If a woman in this group is also entitled to Additional State Pension (SERPS and S2P), she could receive an additional sum between £8,000 and £20,000, just during the period between reaching her SPA and the date when a man born on the same day reached his SPA of 65.[183]

164. The Minister made clear in oral evidence that it was not the Government's intention to permit these women to gain eligibility to the SPA by deciding to defer taking their State Pension to the same date as a man born on the same day.[184] However, he pointed out that these women already have the option to defer taking their State Pension under the current system. This attracts an increment of 10.4% per year. DWP estimates that 75% of the women in this cohort could receive an entitlement of £144 per week under the current system if they deferred taken their State Pension to age 65.[185] Baroness Hollis endorsed the idea of deferral. She also pointed out that "poorer women, who cannot afford to defer, may remain entitled to Pension Credit".[186]

165. It should also be noted that there are other groups who will be affected by the cliff edge of a specific implementation date in the same way as this cohort of women. These include a number of self-employed people who reach State Pension Age just before STP is implemented and who will miss out on receiving the higher State Pension it will bring,

180 DWP Note, op cit, Annex A

181 Q 64

182 HC Deb, 25 Feb 2013, col 359W

183 DWP Note, op cit, paras 22-24; see also HC Deb, 25 Feb 2013, col 359W

184 Q 187

185 Q 188; see also DWP Note, op cit, paras 18-20

186 Q 64

whereas someone who reaches SPA a few days after the implementation date will benefit. As Age UK has acknowledged: "if the single-tier is introduced from a specific date then there will always be a cliff edge".[187]

166. ***We heard from many women born between 1952 and 1953 who believed that they would suffer a double adverse effect on their State Pension income, arising from the increases in their State Pension Age combined with their ineligibility for the Single-tier Pension, if it was introduced in 2017 as set out in the White Paper. It appears that the Government's decision to bring forward the implementation date of the STP to April 2016 will mean that around 85,000 women born between 6 April and 5 July 1953, whose SPA had been increased a second time in the 2011 Pensions Act, will now be eligible for a State Pension under the new system. However, the change in the implementation date does not appear to bring any of the remaining women in the cohort born between April 1952 and April 1953 within the scope of the STP. We recommend that the Government clarifies whether this is the case, and sets out the range of impacts on the State Pensions of these women, in the revised Impact Assessment for the STP which we have requested that it publishes when the final Bill is introduced.***

167. **For the women in the 1952 to 1953 cohort who may not be eligible for the STP even with the earlier implementation date, it is in any case far from clear that all of them would have been better off under the STP. We note the option available to them to defer taking their State Pension under the current system. The favourable incremental rate that deferral offers would enable women in this position who can afford to wait a few years to begin claiming State Pension to build up an amount equivalent to the STP. Those who cannot afford to defer taking their pension may be entitled to Pension Credit.**

168. ***It is important that women who are affected by the increases in their State Pension Age understand their individual State Pension circumstances. We believe that this group should be prioritised as part of the overall communications strategy for the STP. We recommend that DWP publish detailed information on its website to help this cohort of women to calculate their State Pension entitlement. This should explain the option to defer taking the current State Pension, and set out the benefits this offers.***

187 Ev 57

Conclusion

169. Effective scrutiny by this Committee of the major reform of State Pensions set out in the draft Pensions Bill has been hampered; first by the extremely tight timetable the Government imposed upon us and then by the Government's last-minute decision to change the implementation date, from April 2017 to April 2016. This was announced after we had concluded the evidence-taking for the inquiry and only a week before the Government had asked us to produce our findings. It is not acceptable for governments to adopt such a cavalier attitude to the scrutiny role of select committees. However, our recommendations remain valid and we believe they will assist effective parliamentary scrutiny of the final legislative proposals when the Bill is introduced in May 2013.

170. We welcome the improvements in retirement income that the Single-tier Pension will bring. It will mean more State Pension for many people, particularly low-earners, in the short to medium term. It will also be a much simpler system for people to understand and will give them greater certainty about the value of saving into a private pension scheme. In this way it will complement automatic enrolment into workplace pensions in boosting the amount that most people will have to live on in retirement.

171. It is clear to us that the key to the success of this reform is the way in which it is communicated to the public. There are already a number of misconceptions about what the STP will mean for individuals, including who stands to gain, who might lose, and how individual entitlement will be calculated. People closest to retirement understandably have the most immediate concerns.

172. We appreciate that it is not possible for the Government to spend money on a communications strategy for a policy that has not yet been approved by Parliament. However, we believe that it is vital that DWP is in a position to indicate what its overall communications approach will be, how the internet will be used, and what individualised information it plans to make available, by the time the Bill is before Parliament. This is particularly important now that the implementation date has been brought forward by a year.

173. The evidence we took from the pensions industry and employers initially satisfied us that DWP had been effective in liaising with these stakeholders on the reform proposals and that they were broadly satisfied with the proposed arrangements for ending contracting-out. The Government's decision to bring forward the implementation date at such a late stage means that it will need to engage urgently with representatives of employers and pension schemes to ensure that their concerns about the accelerated timetable for reform are taken fully into account in the final legislation and draft Regulations.

174. We have a number of concerns about the potential impact of some aspects of the proposals and the transition process on particular groups of individuals. The change in the implementation date has created further uncertainty about which groups will be affected by the changes and in what ways. It will only be possible for Parliament to make a proper assessment of the effects of the proposals if the Government makes accurate and up to date information available. Most importantly, DWP needs to publish a revised Impact

Assessment, which takes full account of the implications of the earlier implementation date, when the Bill is introduced. We have also identified some specific areas where DWP needs to carry out further analysis and costings, to enable Parliament to judge whether remedial action or modification of the proposals is required.

List of Conclusions and Recommendations

In this List, conclusions are set out in plain type and recommendations, to which the Government is required to respond, are set out in *italic type*.

Our approach to this report

1. We agreed to the Government's request that we undertake the pre-legislative scrutiny of this important reform. However, the Government has made it very difficult for us to carry out this task effectively. First, we were asked to report our findings to an extremely compressed timetable, to accommodate both the delays in the Government bringing forward its proposals and the Government's intention to introduce the finalised Bill at the start of the next parliamentary session in May 2013. Then, on 18 March 2013, a week before the date specified by the Government for us to conclude our work, and after we had finished taking evidence and our report was largely drafted, the Government announced that the implementation date for the Single-tier Pension was being brought forward by a year, from April 2017 at the earliest, as set out in the White Paper, to April 2016. (Paragraph 15)

2. It is clearly not possible for parliamentary committees to conduct effective scrutiny when the Government makes such a significant change to reform proposals a week before the deadline it has itself set for the scrutiny process to be completed. Nevertheless, we believe that our recommendations remain valid and that it is important that our findings are available to Parliament when it begins its scrutiny of the final legislative proposals for such a major reform of State Pensions. We therefore decided to proceed with publication of our report. (Paragraph 16)

3. The STP brings welcome simplicity and clarity but introducing a new system at a single point of time, with set eligibility criteria, also creates a number of "cliff edges" —cut-off points where people lose or gain entitlement because of their age at a particular point, their spouse or partner's age or circumstances, or because they just meet or fail to meet a certain eligibility criterion. We therefore decided that this report should consider how potential adverse impacts on particular groups of individuals, and the effects of cliff edges, might be addressed in the legislation. (Paragraph 19)

4. *It has not been possible for us to take further evidence on the implications of the earlier implementation date for the STP because the Government announced it after we had completed the evidence-taking for our inquiry. The change is particularly significant for the pensions industry and employers because of the adjustments which they will need to make to workplace pensions schemes to take account of the ending of contracting-out, but it clearly also has implications for many groups of individuals. We consider it imperative, therefore, that the Government carries out a further Impact Assessment of the Single-tier Pension proposals. This should take particular account of the impact of the changed timetable on the pensions industry and employers. The revised Impact Assessment should be published at the same time as the finalised Bill is introduced in May 2013, together with the other additional analyses of impacts and costing of options by DWP which we have indicated are required. (Paragraph 20)*

Overall impacts of the reform

Pension Credit and reliance on means-tested benefits

5. *Pensioners on low incomes who are entitled to Pension Credit are often also entitled to other means-tested support, particularly Housing Benefit and Council Tax support, as well as other passported benefits. The Government has indicated that there will be transitional protection for people who would have been entitled to both Savings Credit and Housing Benefit under the current system. However, the details of how this will work in practice are not clear. We recommend that the Government develops and publishes a clear explanation of how means-tested support, including passported benefits, will operate under the Single-tier, and of the transitional protection that will be put in place, in time for consideration of the final legislative proposals later this year.* (Paragraph 38)

Incentives to save

6. We welcome the Single-tier Pension as a necessary complement to automatic enrolment in workplace pensions. We believe that the STP will give people more clarity about the amount they can expect the State to provide for them in retirement so that they are better placed to make decisions about whether and how much to save in a workplace pension or other private pension. The STP is not, however, in itself a "silver bullet" solution to the problem of low saving levels for retirement. Further measures to encourage private pension saving and to increase consumer confidence in the pensions industry, including through improved governance of pension schemes, are also required, particularly in the context of people being automatically enrolled into workplace pensions. Earlier education about planning one's retirement income is also needed and should start in schools, as part of a financial education curriculum. We will address these issues in our forthcoming report on governance and best practice in workplace pension schemes. (Paragraph 46)

Winners and losers

7. The overall impact of the introduction of the Single-tier Pension is that a significant number of people will receive more State Pension, mostly in the short to medium term. We welcome this improvement in State Pension provision, particularly as some of the key gainers will be women, carers and other people with gaps in their working lives, who will benefit significantly. The main losers will be people who are not able to fulfil the minimum qualifying years requirement and "notional" losers who would have been able to accrue higher State Second Pension (S2P) in the current system. (Paragraph 55)

8. However, for most people the overall impact, whether they gain or lose, is likely to be marginal. The reform could be seen as evolutionary and simply continuing at a faster rate the redistributive effects of the changes made with the introduction of S2P in 2002, which widened the coverage of the Additional State Pension and made it more flat-rate and less earnings-related. Moreover, while the STP may be higher than the Basic State Pension which some people would have received under the current system, the net amount some of them receive in weekly income from the State may be less, because of the loss of means-tested benefits. (Paragraph 56)

9. *The introduction of the STP, the roll-out of automatic enrolment and further increases in the State Pension Age will all significantly affect retirement planning and income, in different ways for different groups over the long period of transition. We recommend that the Government carries out and publishes an assessment of the cumulative impacts of these policies on different population groups, including at a range of income levels, separately for men and women, at 10-year intervals over the period to 2060. (Paragraph 57)*

Issues on which clarity is needed now

Balance between detail set out in primary and secondary legislation

10. Much of the detail of the Single-tier Pension proposals will be set out in Regulations rather than being contained in the primary legislation. We understand the need for flexibility in this respect and the risk involved in Parliament agreeing primary legislation which is too prescriptive and which then has to be amended by further primary legislation. However, a proper assessment of the reforms, by Parliament and stakeholders, will not be possible until the detailed arrangements are finalised and published. The Government's announcement on 18 March that the implementation date for the STP is to be brought forward by a year makes it even more urgent that the draft Regulations are published as soon as possible, particularly those on the detailed arrangements for ending contracting-out which have major implications for pension schemes and employers. (Paragraph 64)

Implementation date

11. *In his oral evidence to us on 11 March 2013, the Minister gave a very clear indication that the April 2017 implementation date for the STP was fixed. He agreed then that it was very important for stakeholders, particularly pension schemes, to have certainty about the start date. We were therefore very surprised when, a week later, he announced that implementation was to be brought forward by a year to April 2016. We had already decided that the implementation date was one of the key features of the reforms which needed to be set out on the face of the Bill. The Government's decision to make this major change, which has significant implications, at this very late stage of the scrutiny process, makes the case for this even stronger. We therefore recommend that the new implementation date of April 2016 is set out on the face of the Bill, to give the public, the pensions industry and employers the certainty they need about when this major change affecting so many people will happen. Given the likelihood that any delay in implementation, no matter how small, would cause a significant impact on retirement income for the groups which face a cliff edge, including the implementation date in the primary legislation would provide greater assurance that the planned start date will be met. (Paragraph 67)*

Minimum number of qualifying years

12. *We believe that it is appropriate for a minimum qualifying threshold to be set for the Single-tier Pension. The draft Bill does not specify the minimum number of years required for eligibility, although the White Paper indicates that this will be set between 7 and 10 years. We understand the need for flexibility in setting the minimum number of qualifying years. However, there is nothing in the draft Bill as it stands to prevent the Government of the day deciding to set the requirement at more than 10 years. We recommend that the Bill specifies that the minimum number of qualifying years will be "not more than 10 years". (Paragraph 72)*

13. There are a number of people who may currently be expecting a State Pension of up to £35 a week under the current system but who will get nothing in the new system because of the 7-10 years qualifying requirement. Those closest to retirement are of the greatest concern as they have less time to make alternative provision. The Government should set out clear proposals, as part of its communications strategy, for ensuring that people affected are informed of the implications, to enable them to plan ahead, including deciding whether it is appropriate for them to make voluntary National Insurance Contributions. (Paragraph 73)

Communications strategy

14. We agree with witnesses that an effective DWP communications strategy is key to the Single-tier Pension achieving its aims. There is already evidence of confusion about the impact on individuals, with some people believing that everyone will automatically be entitled to £144 a week, and others fearing that they will lose any higher State Pension entitlement they may have built up. Many people do not know whether they are or ever have been contracted-out so are unable to assess the implications for themselves of its abolition. We understand that governments are limited in the resources they can allocate to communications before a policy has been approved by Parliament. Nevertheless, we believe that the significant task of providing accurate and understandable information to the public should begin as soon as possible. (Paragraph 82)

15. *We recommend that publication of the Pensions Bill containing the State Pension reform proposals at the start of the next parliamentary session is accompanied by the publication of the high-level DWP communications strategy for informing the public about the reforms. The urgency of ensuring an effective strategy is in place has been increased by the Government's decision to bring forward the implementation date by a year. We recognise that some of the detail will come later, but believe that this high-level strategy should set out the timing for each stage of the communications process, and the broad approaches to be adopted for different groups of individuals. The strategy should also include targeted material to alert people who may lose out under the new system and provide clear advice on any action they can take to avoid this—for example by making voluntary National Insurance Contributions. (Paragraph 83)*

Ending of contracting-out

Impact on Defined Benefit (DB) pension schemes

16. The Government's decision to bring forward the implementation date for the Single-tier Pension after we had finished taking oral evidence and within a week of the deadline for us completing the scrutiny process meant that it was not possible for us to seek the views of employers and the pensions industry about the implications for them of this major policy change. However, it is self-evident that having one year less to prepare for the ending of contracting-out will impose a significant burden on both groups of stakeholders. Having previously appeared to listen and respond to the concerns of pension schemes and employers about the impact of the STP, the Government has now sprung this earlier implementation date on them. We believe it is therefore the Government's clear responsibility to work with these key stakeholders to ensure that the transition to the ending of contracting-out is as smooth as possible and that already beleaguered Defined Benefit private sector occupational schemes do not suffer further adverse consequences. (Paragraph 97)

Impact on employees

17. *We accept that, on average, employees who were previously contracted-out will not lose out in the longer term from having to pay increased National Insurance and pension scheme contributions, because most will gain enough in increased State Pension to compensate for this. However, within this average, some individual employees could lose out and some may face difficulties in the shorter term, especially if current wage restraints continue. We recommend that the Government undertakes more analysis of which employees might fall into this category, so that Parliament can properly consider what measures, if any, might be put in place to limit losses. (Paragraph 103)*

Further improvements which need to be built into the new system

National Insurance issues

18. It is important that people are given the opportunity to build up a full entitlement to a State Pension, given that the number of qualifying years required for this will increase from 30 to 35. We welcome the Government's willingness to look at how the system of National Insurance credits might be improved, by providing more prompts to people who have incomplete records to take up credits if they are carers or are in other circumstances which give them a crediting entitlement. However, any system which relies on individuals being aware of this facility is likely to exclude many of the people it is intended to help. We are pleased that the Government plans to use the introduction of Universal Credit to widen the scope of the NI crediting system for people claiming benefits and to more fully automate it. (Paragraph 117)

19. People in multiple low-paid jobs which all fall below the Lower Earnings Limit do not currently build up a National Insurance record. We accept the Minister's assurance that many of these people, mainly women, often receive NI credits because they meet the relevant criteria. However, DWP estimates that around 20,000 people in this situation do not receive NI credits or make NI contributions. We support the Government's changes under Universal Credit which will mean that many multi-job low-earners are brought within the scope of NI credits, including through the new facility for both partners to receive credits on the basis of a household entitlement to Universal Credit. This is particularly important as the facility to derive State Pension entitlement through a spouse or partner's NI contributions will no longer exist under the STP. (Paragraph 118)

20. *We welcome HM Revenue & Customs' acknowledgement that people will require additional time to assess their need to make voluntary National Insurance Contributions (VNICs) around the time of the introduction of the STP, particularly as the implementation date has now been brought forward by a year. The usual six-year period during which it is normally possible to make voluntary NICs has been extended so that VNICs for the years 2006-07 to 2015-16 can be made at any time up to April 2023. We regard this as a very sensible measure which will be of considerable assistance to many people. However, people will need help to understand the implications of the transition to the STP, and many may not immediately appreciate the need to build up more years in their NI record under the new system and in their own right. We therefore recommend that the DWP communications strategy for the STP includes specific provision for a joint campaign with HMRC to publicise this extended opportunity to build up a full NI record. (Paragraph 119)*

Self-employed

21. Self-employed people are one of the key groups to benefit from the introduction of the Single-tier Pension, as they will be brought fully into the State Pension system. We recognise the principle that this might mean they should pay the equivalent in National Insurance Contributions that employed people will pay. However, we believe that this change should be considered as part of a wider review of how National Insurance could now be simplified. (Paragraph 124)

Setting and maintaining the differential between STP and Pension Credit

22. *One of the key elements of the Single-tier Pension is that it will be set above the rate for means-tested support, to ensure that incentives to save into a private pension are clear and to complement the aims of automatic enrolment. We believe that the requirement for the level of the STP to be higher than the Pension Credit Guarantee rate is a fundamental principle of the reform. We therefore recommend that this principle is set out on the face of the Bill. (Paragraph 132)*

23. The indicative starting rate of the STP at £144 per week is less than 1% above the Pension Credit guarantee rate, a much lower differential than was proposed in the Green Paper. We accept that the effect of the Government's triple-lock is that the STP may increase more quickly in value than Pension Credit, because the STP will be triple-locked and increase each year by the higher of earnings, inflation or 2.5%, whereas Pension Credit will be indexed to earnings inflation. We also accept that pensioner income from the STP will be increasingly complemented for many people by private pensions saving, including from automatic enrolment. (Paragraph 133)

24. *There is no certainty about how long the triple lock will be in place and we believe that it is important that there is as much clear water as possible between the rate of the STP and that of Pension Credit. There appears to be scope for a bigger differential (either at the outset or over time) given the increased National Insurance revenue that the Government will derive from the ending of contracting-out and the overall long-term savings which will be made on State Pension expenditure as a result of the introduction of the STP. We therefore recommend that, when the Bill is before Parliament in the summer, the Government publishes an analysis of (a) the cost of setting the STP rate at a range of higher levels; and (b) the level at which the STP could be funded if the additional NI revenue was used for this purpose. (Paragraph 134)*

Uprating of State Pension for UK pensioners living in countries where it is currently frozen

25. We understand the frustration of UK pensioners living in countries where their UK State Pension is not uprated. The fact that these pensions are frozen in countries including Australia, Canada, New Zealand and South Africa, but are uprated in many other countries, is clearly an anomaly. While the introduction of the STP presents an opportunity to remove this anomaly, any change would only apply to those reaching State Pension Age after the STP implementation date. Any decision on the situation of those who are already claiming a UK State Pension overseas which is not uprated would need to be taken separately and on its own merits. (Paragraph 138)

Smoothing the transition to the new system

Calculation of the foundation amount for the STP

26. *The foundation amount calculated for each individual will be a key factor in determining how much Single-tier Pension they receive and whether this is more or less than the standard STP rate. For people who have had periods contracted-out of the State Second Pension (and/or SERPS), and who have therefore paid a reduced amount of National Insurance, the DWP will have to calculate how much this rebate is worth (the Rebate Derived Amount). It is important that this amount is calculated in a transparent way that everyone accepts is fair. We recommend that the Government sets out in simple language the basis on which the Rebate Derived Amount will be calculated, so that Parliament can assess the fairness of the approach. We also recommend that a report from the Government Actuary is laid, giving an assessment of the actuarial fairness of the proposed approach. (Paragraph 148)*

Derived rights

27. *We welcome the Government's sensible transitional solution to the potential adverse impact on employed women who chose to pay reduced NI contributions under the Reduced Rate Election (or "married woman's stamp") arrangement, on the understanding that they would be able to derive a pension based on their husband's contributions. We believe that it should also be possible to find a solution for another small group of women: those who did not build up their own NI record because they*

had a legitimate expectation that they would be able to rely on their husband's contributions to give them entitlement to a Basic State Pension. One option might be that women in this position who are within 15 years of State Pension Age should be able to retain this right. We recommend that the Government assesses and publishes the cost of providing this option for the relatively small number of women affected. We believe that, for those further from retirement, there is sufficient time for them to plan on the basis of the new rules. (Paragraph 155)

Women born between 1952 and 1953

28. *We heard from many women born between 1952 and 1953 who believed that they would suffer a double adverse effect on their State Pension income, arising from the increases in their State Pension Age combined with their ineligibility for the Single-tier Pension, if it was introduced in 2017 as set out in the White Paper. It appears that the Government's decision to bring forward the implementation date of the STP to April 2016 will mean that around 85,000 women born between 6 April and 5 July 1953, whose SPA had been increased a second time in the 2011 Pensions Act, will now be eligible for a State Pension under the new system. However, the change in the implementation date does not appear to bring any of the remaining women in the cohort born between April 1952 and April 1953 within the scope of the STP. We recommend that the Government clarifies whether this is the case, and sets out the range of impacts on the State Pensions of these women, in the revised Impact Assessment for the STP which we have requested that it publishes when the final Bill is introduced. (Paragraph 166)*

29. For the women in the 1952 to 1953 cohort who may not be eligible for the STP even with the earlier implementation date, it is in any case far from clear that all of them would have been better off under the STP. We note the option available to them to defer taking their State Pension under the current system. The favourable incremental rate that deferral offers would enable women in this position who can afford to wait a few years to begin claiming State Pension to build up an amount equivalent to the STP. Those who cannot afford to defer taking their pension may be entitled to Pension Credit. (Paragraph 167)

30. *It is important that women who are affected by the increases in their State Pension Age understand their individual State Pension circumstances. We believe that this group should be prioritised as part of the overall communications strategy for the STP. We recommend that DWP publish detailed information on its website to help this cohort of women to calculate their State Pension entitlement. This should explain the option to defer taking the current State Pension, and set out the benefits this offers. (Paragraph 168)*

Formal Minutes

Tuesday 26 March 2013

Members present:

Dame Anne Begg, in the Chair

Debbie Abrahams
Jane Ellison
Graham Evans
Sheila Gilmore
Glenda Jackson
Stephen Lloyd
Nigel Mills
Anne Marie Morris

Draft Report (*The Single-tier State Pension: Part 1 of the draft Pensions Bill*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 174 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 25 February).

[Adjourned till Wednesday 17 April at 9.15 am.

Witnesses

List of printed written evidence

List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/workpencom)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Youth Unemployment and the Future Jobs Fund	HC 472 *(HC 844)*
Second Report	Changes to Housing Benefit announced in the June 2010 Budget	HC 469 *(HC 845)*
Third Report	Appointment of the Chair of the Social Security Advisory Committee	HC 904
Fourth Report	Work Programme: providers and contracting arrangements	HC 718 *(HC 1438)*
Fifth Report	The Government's proposed child maintenance reforms	HC 1047 *(HC 1727)*
Sixth Report	The role of incapacity benefit reassessment in helping claimants into employment	HC 1015 *(HC 1641)*
Seventh Report	Government support towards the additional living cost of working-age disabled people	HC 1493 *(HC (12– 13)105)*
Eighth Report	Automatic enrolment in workplace pensions and the National Employment Savings Trust	HC 1494 *(HC (12–13)154)*

Session 2012–13

First Report	Appointment of the Chair of the Social Security Advisory Committee	HC 297
Second Report	Youth Unemployment and the Youth Contract	HC 151 *(HC 844)*
Third Report	Universal Credit implementation: meeting the needs of vulnerable claimants	HC 576 *(Cm 8537)*
Fourth Report	Lifting the restrictions on NEST	HC 950

Oral evidence

Taken before the Work and Pensions Committee

on Wednesday 27 February 2013

Members present:

Dame Anne Begg (Chair)

Debbie Abrahams	Glenda Jackson
Mr Aidan Burley	Stephen Lloyd
Jane Ellison	Nigel Mills
Graham Evans	Anne Marie Morris
Sheila Gilmore	Teresa Pearce

Examination of Witnesses

Witnesses: **Sally West**, Income and Poverty Strategy Adviser, Age UK, **Dr Ros Altmann**, independent expert and former Government pensions policy adviser, **Emily Holzhausen,** Director of Policy and Public Affairs, Carers UK, and **Craig Berry**, Pensions Policy Officer, TUC, gave evidence.

Q1 Chair: Can I welcome you this morning to the first oral evidence session of our pre-legislative scrutiny of the Government's Draft Pensions Bill? I was about to say that our fourth witness was delayed on the Tube, but she has now arrived. Beginning with you, Craig, please introduce yourselves and your organisations, very briefly, for the record.
Craig Berry: I am Craig Berry, Pensions Policy Officer at the TUC.
Emily Holzhausen: I am Emily Holzhausen, Director of Policy and Public Affairs at Carers UK. We represent family members who care unpaid for their disabled or older relatives.
Sally West: I am Sally West, Strategy Adviser at Age UK.
Dr Altmann: Ros Altmann, independent economist and pensions expert.

Q2 Chair: Thank you very much for coming along this morning. I am glad to see there is such interest in what everybody else often thinks of as a very dry subject. We in this Committee know it is really, really exciting, and we are very excited to be able to do this pre-legislative scrutiny. Can I ask, very quickly, as an opening question, whether the Draft Bill is sufficiently clear about the important details of the new scheme, and particularly the transitional arrangements? If it is not clear, what needs to be clarified, or what needs to be introduced into the Bill? I do not know who wants to start. It is unusual for all the witnesses to look at one another. Do you want to start, Craig? That is great.
Craig Berry: Very briefly, on that question, there are a couple of safeguards we would like to see in the Bill, for instance triple lock and uprating. The details of the review body for State Pension age have not been included in the Bill. Some aspects of it have, some aspects of it have not, and we would like to see more detail on that. I am quite disappointed with the Government's plans on that issue, in fact. National Insurance (NI) arrangements for the self-employed, which I am sure will change over time, have not been included in the Bill either. The Government could have at least indicated the direction of travel for how National Insurance contributions for the self-employed will increase in future, if not in the Bill.

Q3 Chair: We have some questions on some of that. Anyone else?
Sally West: Some of the issues that Craig has raised, like the triple lock and the level of pension, we would not necessarily expect to be in the Bill, but they will be really crucial as to whether the reforms achieve the Government's aims, which are aims that we support. We would expect some of the things to come later, but, unless we are really clear at this stage, then we are not sure whether they will achieve the aims that we want these reforms to bring about.
Dr Altmann: I think, so far as it is possible to be clear, there is clarity, but it would be welcome if there were a little more certainty about the date of implementation and the level of the pension when it does come in.

Q4 Chair: Which are things that are not on the face of the Bill, but are in the White Paper?
Dr Altmann: Exactly, and maybe some commitment as far as any future changes are concerned, in terms of the interaction of State Pension with means-tested benefits, which is a crucial part of the rationale for the change.

Q5 Nigel Mills: The Government says that the major impact of this reform will be that higher earners, and those who work for a longer period, will get relatively less, and lower earners, or those who work for a shorter period, will get relatively more under the new regime. Is that a conclusion you agree with for these reforms, and is that an aspiration that you think is the right direction of travel?
Sally West: I am happy to start on that one. The impact in terms of pension levels for individuals will depend on things like their earnings level, the number of years of contributions or credits that they have had, and when they reach State Pension age, so it will be different for different cohorts. Broadly speaking, lower earners and people with gaps in their work contribution, for reasons such as caring, will be more

likely to get a better pension out of the system. Higher earners will be more likely, especially as time goes on, to get less than they would have got under the current system. From Age UK's perspective, we would think it is right that the State Pension focuses on those who have lower incomes and less opportunity to build up private provision.

However, it is important that, for example, the level of the pension is sufficient to achieve the aims, reduce means-testing, and to ensure that workers with modest earnings are able to achieve a decent income from State and private provision. Again, as we have already mentioned, the uprating policy will be really important, because whatever the starting point is, if it is not triple locked, the relative generosity of the pension will go down over time.

Emily Holzhausen: I speak specifically from the point of view of carers, who often have broken National Insurance records, complicated working patterns, and might be out of the labour market for anything from six months to perhaps almost a lifetime if you are caring for perhaps a child who grows up with severe disabilities in the community. Certainly in the short term there are improvements for carers with this particular policy, as Sally said: the triple lock, the uprating, and the level that one is expected to live on, or needs to live on, in combination with sources from private pensions.

Although you are scrutinising the Bill, I do not think this can necessarily be looked at in isolation without looking at other welfare reform changes, and I can talk about that a little bit more later, because they obviously have a bearing on people's National Insurance contribution records. In principle, over the short term, yes, it is an improvement.

Craig Berry: I do not think it is entirely fair to characterise low earners as being people with short or interrupted working lives, because low earners with longer working lives or a full National Insurance record will lose out as a result of single tier over the long term. Their losses will not be disproportionately that much greater than higher earners. I think we need to be clear about who the higher earners are. Accruals to the State Second Pension (S2P) in the current system are quite flat, so anyone earning £40,000 or around that amount, or above, is treated as if they earned £40,000. That is my understanding of the system. People earning around, say, £30,000 or above, especially in parts of the country where the cost of living is higher, should not really be characterised as the high earners, making the system redistributive. I would challenge that characterisation.

We are considering the impact of single-tier in the context of wider reforms to the pension system, principally automatic enrolment, and it is fair to say that auto-enrolment targeted at low to medium earners will improve the private pension outcomes of many millions of people. However, you would have to introduce a caveat into that caveat as well, by saying that people are paying for those private pensions during their working lives. The low to medium earners benefiting from automatic enrolment are paying more or less the same National Insurance over their working life in the new system as they would have in the old system, and paying more for a private pension, to get roughly the same or just a little bit more or less than they would have from the State Pension in the current system.

Dr Altmann: I think the aims of the reform are absolutely right. The idea is to provide a flat-rate base of State support from a particular age in later life that everybody can understand, expect, and know about. At the moment you have a system that nobody understands that gives more State help to people who earned more during their working life, because there is an earnings-related element to the pension. Even under S2P there is some earnings relation. That makes it very difficult for people to plan whatever private provision they might want to make, because they do not know what base they are building upon. Also it seems to me to make more sense for the State to pay the same flat rate amount to everybody, rather than trying to ensure that those who earned more while they were working have more State Pension in retirement as well, because by definition those who earned more while they were at work would have had better opportunities to save privately for their own pension.

If you look at Europe, there is a concept of replacement rates for pensions, where the State Pension is based on the idea that those who earned more while they were working deserve more from the State while they are retired. I think what the UK is now trying to do is a much better system for sustainable building of retirement income in the longer term, which is just the basic minimum, and everybody knows that if all you want in retirement is £144 a week, or that equivalent, then you do not need to do anything. However, if you want more—and most people will—you have to make a plan, either to save or to have money coming from your home or somewhere else. That is where I think the fundamental aims of this reform are absolutely correct.

Q6 Nigel Mills: So we have two pretty major changes here. One is that you have to work 35 years to get the full pension, and the second is that, if you have worked for less than seven to 10 years, or your qualifying years are less than seven to 10, you get nothing. Do you think those two changes will impact particularly on certain groups? Do you agree or disagree with those two changes?

Emily Holzhausen: Obviously the rise in the number of years by five years, from 30 to 35, will impact groups who find it harder to work and have to get their contributions paid in some other way, through claiming different benefits, like carers, for example. That is where we start to see holes in people's records, for a number of different reasons. There are complications around the minimum number of qualifying years as well. If somebody comes to this country when they are aged 35 and aims to work a long time but ends up caring for a disabled child or perhaps a parent, they might not accrue enough contributions, depending on their records and depending on what they claim, etc.

It is those individuals who could lose out under this system. On the whole it is a positive policy, and I accept that because of the rise in the working age, people will have to work longer, but it does cause problems, potentially, for people like carers.

Craig Berry: I think it is quite disappointing that we have moved to 35 qualifying years for a full State Pension, away from 30. I think 30 struck the right balance between a contributory system and a system that was more, where the vast majority of people can retire on a full State Pension. It is quite disappointing, although I recognise that the impact in practice will probably be quite marginal or minimal. The more important issue is making sure that people get credits when they are due. Sometimes take-up of National Insurance credits, in lieu of National Insurance contributions, is not high enough, and also people with very low earnings are, of course, not credited for a National Insurance qualifying year. It will be important for the Government to look at that as they implement the higher qualifying years rule.

Sally West: I agree with that. Regarding the 35 years and the loss of derived benefits, which hopefully we will talk about later on, particularly for women, who tend to have more complicated working lives—perhaps combining part-time work with a bit of caring—you do not get credits for children aged 12 and over, but they still need support. Women who are juggling struggle sometimes to get qualifying years. For example, you have to claim some of the carer's credits; they are not automatically linked to benefits. Take, say, somebody who is unable to work or cannot find a job: they may not get any benefit if they, for example, have a working partner. However, in order to protect their credit record, they will need to be claiming a benefit, fulfilling the work-related conditions, and unless people are aware they need to do it, and prepared to go through that in order to get no benefit but a credit for something that might happen in 30 years' time, they may come up with gaps.

We still have the issue that we and a number of people have raised in the past when we have discussed previous Pensions Bills: people who have more than one part-time job. If none of your jobs reach the lower earnings limit (LEL), you could have three jobs earning £100 per week, and you are still not getting a contribution that gives you a right towards your pension. Some of the issues that were discussed for previous Pension Bills will still be there and need to be raised again, because of the 35 years and the loss of derived rights.

Dr Altmann: I am not so concerned about the increase from 30 to 35. If you look at where we started from, we started from 44-ish, and we went to 35 via 30. It is a bit odd, but at the end of the day the aim of the reduction to 30 years was to ensure that more women got a better State Pension. Now we have a single-tier, which should itself ensure that more women get a better State Pension, it is not so odd to have increased the qualifying years from 30 to 35. Again, there will be a transition group and, again, it is a shame that there is so much tinkering and confusion within the State system itself. We have had so many changes.

The bigger concern for me is the one Sally just raised, which is that there will still be many women, potentially, who have more than one job and each job has no National Insurance contribution attached to it. We do not know how many there are; the DWP says it is very few, but how much that is in numbers I am not sure. They will be much worse off than somebody who is not working at all. If we could finally find some way of crediting people who are still working and earning, but below the National Insurance limit, in the same way that we can credit people who are not working at all within this Bill, I think that would be most welcome.

Sally West: Of course the positive thing about the Basic State Pension being triple locked is that it has increased in value somewhat, but as the lower earnings limit is linked to the basic pension, it means that threshold goes up, so it is a bit swings and roundabouts. Currently you could have 16 hours at minimum wage, and not meet that threshold. That is something that needs to be considered.

Q7 Nigel Mills: None of you have commented on the seven- or 10-year disregard. Does that mean you are all quite relaxed about it?

Dr Altmann: The issue with the seven to 10 years is that it is most likely to impact on people who have not lived in the country for that long. We do not know exactly who they are, but they may well have contributions in other countries or elsewhere, and we will still be retaining the system of Pension Credit for people who do not achieve the full State Pension. If one has to look for areas of targeting spending, I am not so uncomfortable. I do not think it will affect women who have lived in the UK for their whole life, for example, because they will have been credited—unless they are in this group, as I say, who are below the National Insurance threshold.

Q8 Sheila Gilmore: To follow up a point that Ros made there—that the previous system, with its earnings-related element, meant that better-off earners were getting more pension—these are people who, by definition, do not have a private pension. They could have been contracted out from the State Pension. Are you confident that there are good private sector pensions for these people to start saving into? If you were covered by SERPS[1], you were generally contracted out. If you had a good pension otherwise, you would have been contracted out, so they do not have occupational pension is what I am trying to say—or they would not be in SERPS.

Dr Altmann: I was trying to make a more general point. We need to ensure that there is good private provision for everybody, whether you are a higher earner or a lower earner. The fact is, if you were earning more while you were working, you had more opportunity to save, in whatever savings vehicles were available. Is it the duty of the State to ensure, just because you were earning more when you were working, that you have to get more State Pension as well when you are not working? The balance needs, perhaps, to be the other way.

Q9 Sheila Gilmore: Particularly high earners. The State, you are suggesting, was in some way subsidising all of these high earners. I am suggesting that a lot of the people who were and are covered by

1 State Earnings-Related Pension Scheme

the Second State Pension did not have the opportunity of an employer's pension scheme, which is why they were covered by it in the first place. Are you confident that we really are in a position to guarantee that, if that goes, people will be able to make it up in other ways?

Dr Altmann: If you are asking whether I am confident that we have a reasonable private savings system in the UK, I think we have a way to go in terms of improving that. Is our private savings system much worse than that of other countries? I probably think, not really. I think we have an issue with private pensions in general, and I take your point that certainly over the past couple of decades there have been astonishingly bad practices in private pension provision, in charges and the value that has been offered by many non-Defined Benefit pensions. I think the Defined Benefit pension system we have had, which sadly is now pretty much on its last legs, would have offered, and did offer, very good top-up pensions. We are now in the Defined Contribution phase, and I think therefore the quality of pensions will obviously be lower for the member. However, the costs of the Defined Benefit system proved too high, and the risks proved too high to be relied upon.

In the end, one is talking about the social policy rationale for a State Pension. Is the social policy rationale for a State Pension, and for taxpayer funding of State Pensions, to ensure that everybody gets a flat rate on which they can build whatever private provision is out there? Then you have to address private provision, and obviously make sure that it is suitable. Or is it to ensure that people who earned more while they were working then get a higher State provision, funded by taxpayers, in retirement?

You can argue it both ways. I would argue that the basic pension flat rate for everybody, irrespective of your previous earnings, makes more social sense. Others might argue differently: obviously your contributions to National Insurance would have been higher, because you earned more and you paid a higher proportion of salary, which in money terms is higher. However, I still believe that if we are to achieve a successful private retirement savings culture, people need to know what the State will pay to them. There needs to be a flat rate base on which people build. Earnings fluctuate during your working life, but irrespective of the fluctuation in your earnings, if you have a single-tier, flat rate pension, you will still know that when you reach a certain age the State will pay you £144 per week, or whatever the equivalent will be, and that is it. Anything else you want, you have to find from somewhere.

Q10 Debbie Abrahams: This links into Sheila's question, but I would like to open it up to the rest of the panel. I think we can all agree with the objectives around the legislation: to reduce inequalities for pensioners. Much of the legislation over the last few years has tried to do that. There seems to be, in terms of the detail—again, similarly with other legislation—much up in the air about whether it will actually achieve that. There have been different points there. Would you agree that one of the elements of this is to continue to shift the risk, in financial terms, from Government and employers to individual employees?

Craig Berry: The Pensions Commission, whose findings are often gospel for anyone involved in debating pensions policy, I think recognised that the system of private pension saving was not ready to take up the slack if earnings-related State Pensions were abolished. Of course it set us on a path towards more of a universal flat rate State Pension, but did not recommend abolishing earnings-related State Pensions over the kind of time period that the Government is suggesting.

Those problems identified by the Pensions Commission, which in many ways they sought to rectify, are still with us to some extent. Defined Contribution pensions are too often low quality and high-charging. There is no certainty at this stage that people will be able to replace the income that they lose from the State Second Pension through private saving, especially when you factor in, as I said earlier, the fact that they are putting a proportion of their salary into these savings vehicles, in addition to continuing to pay full National Insurance contributions.

Sally West: Craig mentioned the Pensions Commission; one of the things we are very interested in is an idea that the Pensions Commission themselves suggested, which is some kind of ongoing advisory committee. We have suggested that should be the body to be looking at the evidence around State Pension age, but it could also look at some of these broader issues around whether we have the right balance in sharing risks. If you look at one aspect of the pension system in isolation, such as the State Pension, private provision or whatever, it is hard to get that overall picture. We think that might be one way of making sure that we are heading towards a system where we have that decent balance and everybody is able to get an adequate income.

Chair: We had better move on. We have a lot of questions, and another panel after this one.

Q11 Jane Ellison: Communication: it is probably universally agreed that one of the areas in public life generally that people are the least au fait with is the communication around pensions and an understanding of that. The DWP team have told us that their communication plan for these reforms is a work in progress. Obviously your contributions to that thought process are welcome, but in particular I wondered if there was any aspect of communication you felt should be written into the face of the Bill—perhaps a pension statement or something like that?

Dr Altmann: That is very important. One of the points I would make about the concerns on replacing S2P, which people now may no longer receive at slightly higher income levels, goes to that point, because most people do not have a clue what S2P they will get anyway when they are making a plan earlier in their life. I think it is important that people get regular statements that help them make that plan. How far are you along the road to getting your £144 per week? How many more years of contributions via National Insurance in some way, or, if you are a carer, how many more years of credit, will you need to be able to get that? Then you can still have your base on which you can plan your private income.

Sally West: I had not particularly thought about what needed to be written into the face of the Bill on that.

Q12 Jane Ellison: You have said that one of the key challenges is the communication.

Sally West: Yes, definitely. I think there are the communications for the individual at the time the change is coming, to make sure that absolutely everybody is clear what their foundation pension will be and what that means for them. It is a simpler system, but it will be quite a long time in the future before it will be a really simple system. The transition and indeed the communications will be complicated. There is ensuring people get individual communications they can understand. There are some general issues we need to start looking at now, because a lot of people do not really understand what "£144 for all" means, because it is not that.

Many of the people contacting us are current pensioners, and I should put on record that we are concerned that current pensioners will not benefit from any of the improvements, where they have a low pension. However, some of the people contacting me say, "It is unfair because I only get £107 basic pension, and in the future everybody will get £144." Of course that is not the case, because they do not take into account Additional Pension or contracting out. It is very understandable; as Ros said, people do not understand the Additional Pension, so I think sooner rather than later we need to be getting some general messages, to explain broadly speaking what the reforms mean. I hope that we and other organisations will be able to work with the DWP and the pensions industry to try to get some common language and some common factual information about what it means.

We also need to think about people who perhaps should be doing, or not doing, something now. We talked about the credits, and whether people need to be starting to sign on to get credits, whereas they were not before, because they thought they had 30 years, or the issue of voluntary contributions. Some people may be able to make up gaps through voluntary contributions. However, we understand the Government is saying they will relax the time limits for these, but that message needs to go out quickly, if that is the case. Otherwise people may pay six years' backdated contributions and discover they will not get anything more, because they already have additional pension.

We are finding a lot of people are understandably confused. People are worried that there will not be a means-tested benefit system in the future, and people are concerned they already have £160 in their State Pension and they will lose out. It is a really important issue.

Q13 Jane Ellison: Just thinking about the people you deal with and advise, it is obviously hundreds of thousands of people a year, I would imagine, as an organisation. What percentage, broadly, would you say, have a good understanding of their pension entitlement as they approach pension age?

Sally West: I thought you were going to ask me a difficult question there: "a good understanding of the pension system". I could probably tell you that was a handful.

Jane Ellison: Just how it affects them.

Sally West: As people get nearer to State Pension age, they start to ask for pension forecasts. Once you get to that stage, you can get that information. They know what they are due to get, although the forecasts are not that easy to interpret, but they often do not know why. I do not know if you have ever tried to explain contracting out to someone; it is very difficult.

Jane Ellison: We tried to discuss it as a Committee, and it was very difficult.

Sally West: You say, "You were contracted out," and they say, "No, I never contracted out." They do not sign a form to say, "Please contract me out"; they join their private pension, and I do not think any Government or DWP in the past has tried to explain to people, "You are paying lower National Insurance because you are in a pension scheme." I think particularly as people are further away from retirement, there is very poor understanding.

Q14 Jane Ellison: You are both highlighting the same point, which is the future planning bit, rather than people just approaching it.

Emily Holzhausen: I wanted to give a specific example from Carers UK. Under the last Government, carer's credit was introduced, which was a fantastic bit of pensions policy whereby people who could not get carer's allowance or any other benefit were able to get a credit towards their State Pension. It was very flexible; we really very warmly welcomed it, and it was welcomed by all parties, I have to say. There are about 120,000 people who should be entitled to carer's credit. I beg your pardon; those are 2007 figures. I do not have any up-to-date figures, but I do know that the uptake of that is extremely low, and one of the problems around that is people do not know about getting these credits.

For example, you might just go over the earnings limit for carer's allowance, lose your carer's allowance, but you do not earn enough to meet the lower earnings limit to be credited into the Basic State Pension. It takes somebody to say to you, "You need to claim carer's credit in order to protect your pension," and the level of knowledge out there, I would say, needs to change within the Government-run advice services and also welfare rights services and other ordinary advice organisations. We need something on the face of the Bill to help people understand that they need to do this.

As we know, applying for benefits is a very complicated and difficult process, and people, if it means just a couple of pounds in their pocket, may make a decision not to do it. Of course that will affect their pension entitlement, so it is absolutely critical that we get this communication. Although there are some protections out there for carers, we need to work so hard to make sure that they are implemented.

Q15 Jane Ellison: Can you put a figure on what you think the non-take-up is?

Emily Holzhausen: I think it would be best if you wrote directly to the—

Chair: We were told yesterday that 3% to 4% is the take-up rate. It is very, very low.
Emily Holzhausen: It is very, very low indeed. These are the people that were at risk.
Chair: Craig, I will not get you to answer that one, because I think you will probably have to answer most of the next ones on contracting out.

Q16 Anne Marie Morris: Craig, I fear these are entirely for you. Have you made an estimate of what the additional National Insurance contributions will be for contracted-out employees on average earnings? When we end contracting out, clearly there will be a change. Have you done an estimate as to how much, for the average earner, the additional NI contributions they have to make will be?
Craig Berry: I think it would be around a few hundred pounds a year. I do not have the exact figure.
Dr Altmann: About £350 a year.
Craig Berry: £350 sounds about right for the median earner.

Q17 Anne Marie Morris: What do you calculate the average earnings to be, to make that calculation?
Craig Berry: The median earning is £26,000, is it not?

Q18 Anne Marie Morris: Fine. That is very helpful. Employers have the right to amend Defined Benefit (DB) pension schemes to enable them to recoup the additional NI liabilities, without trustee consent. The TUC is concerned that this creates a significant risk of material loss. Could you amplify that for us, explain your concerns, and suggest what might be put in place to avoid your concern?
Craig Berry: I think the statutory override that employers will have to make changes to their schemes is unnecessary. It is a narrow interpretation of the work that trustees do, and it is a misrepresentation of the work trade unions and members do. Trustees and unions will often take measures and support proposals that safeguard the wider financial viability of DB pension schemes, so I do not think it is entirely necessary to give employers this unilateral power to make scheme changes. They should be negotiated at a scheme level. There is no other evidence that trustees or members would be entirely averse to making those kinds of scheme changes, if they recognised the State Pension outcomes will be higher. The problem with the statutory override, as I understand it, is that the cost will be at the aggregate level. Employers will be able to calculate how much extra in National Insurance contributions they will be paying in relation to their DB pension scheme, and they will be able to make scheme changes that recoup those costs in full, but there is no guarantee that there are no losers among individual members. Individual benefits will not be safeguarded in that process, so it may be that some people's lost private pension income is offset, or more, by higher State Pension income eventually, but there is no guarantee that many people's lost private pension income will be offset by higher State Pension income.
Making these calculations at the aggregate level per scheme is the difficulty here, and we would like to see a guarantee that no members will suffer meaningful losses as a result of this unilateral power being employed, if it is employed. As I say, we think it is unnecessary anyway.

Q19 Anne Marie Morris: I understand what you are saying, but presumably we have a trade-off between simplicity, to try to get things sorted and moved on, and something that is, as I think you would describe it, fair. When you talk about negotiation, I guess the challenge with that is inevitably it adds to delay, uncertainty, and does not help people in terms of planning for the future. Is there anything that is not complete free-for-all negotiation but is not equally a straight override that you think would be fairer?
Craig Berry: I am not entirely sure what the Government's plans are. I know they are in discussions with the actuarial profession. It will be interesting to see what role The Pensions Regulator has in that process as well. If there is some form of override, the process should be entirely clear and involve trustee and member consultation, although, as I say, the need for trustee consent, where that is written into scheme rules, should not be taken away.

Q20 Anne Marie Morris: Let us move to the other side of the fence, the public sector, who are in a very different position, because their employees are protected and effectively the burden falls on the employer this time around. Do you think that is a fair position?
Craig Berry: It is a fact that public sector employers will be paying higher National Insurance as their employees are contracted back in. This is the reason that single-tier reforms are not fiscally neutral, despite the Government's claim. I think it is around £6 billion in extra National Insurance revenue, and about £3.5 billion of that comes from public sector employers. They will not be able to recoup that cost, which I think is absolutely right, but the Government should ensure that the necessity to recoup that cost somehow does not impact on the quality of public services and of course, as part of impacting on the quality of public services, jobs and pay in the public sector. If single-tier reform is to be fiscally neutral, it should include that extra revenue in the calculation.
Chair: We have talked a wee bit about women and carers, but we have some more questions.

Q21 Sheila Gilmore: Are you satisfied that the proposals constitute an improvement in the State Pension for women and carers? Maybe one point that has already been alluded to that we could perhaps look at in a bit more detail is this one about people under the lower earnings limit. A constituent came to me recently who was doing more than one part-time job. Her total earnings in most years were over the lower earnings limit, but she was not getting the contributions in any of those jobs. When I wrote to the Minister at that time, only a few months ago, he just said, "That is how it is," and, basically, "Tough." There may be many more people like that, especially given the move to zero hours contracts and lots of part-time jobs. I wonder if that is a particular issue.
Dr Altmann: That is something I have raised with the DWP a number of times over the years. It is of great

concern to me. I am assured by the DWP each time that it is a very small number of people. I do not know how many, and I think it would be worth trying to find out how many. However, I cannot believe that it is beyond the wit of the DWP to credit people who are below the National Insurance threshold in one or more jobs in the same way as they credit people who are not in any job.

It may be that you have to fill in a form, but at the end of the day, it should not be the case that women who have caring responsibilities and have to juggle a few, very low-paid part-time jobs are excluded from being credited for the State Pension, when somebody who is at home full-time and is not working at all is credited. They are equally valid as far as contributions to society are concerned, and I think it is important, now that we are getting these reforms through, that we find a way to bring those people in.

Q22 Chair: Should they be able to do it through National Insurance numbers? They must be registered somewhere to show that they are below the levels.

Dr Altmann: Again, I am told by the DWP that it is not possible to use National Insurance numbers as a unique identifier for some reason, but there must be a form that somebody could fill in, surely, that would say, "I am working. I am not paying National Insurance because each job is below the limit, but I am working; I am a valid member of society; please credit me for my State Pension for this year."

Sally West: It is an issue that has been looked at before, as I said earlier. It is not a new issue, but it feels like one that we need to come back to. I do not think any of us would have instant answers to how you do it, but it would be really good to have a commitment that that is something we need to look at and achieve.

Q23 Sheila Gilmore: There are two reasons, are there not, why this is now more important? One is to do with the state of the labour market, and the kinds of jobs we all know people are doing. The other is that in the past a lot of women would have got the wife's part of the husband's pension, for example, so there might have been an assumption, "Well, at least we will get 60%, so it is not necessarily a problem."

Sally West: Some people do work on that assumption. Some people plan their lives and they know that, and for a lot of people it happens by default, because a lot of people assume they get a State Pension at pension age, and they do not know how the contribution record works. I agree it will be particularly important with the labour market, the 35 years, and the loss of derived rights.

Q24 Glenda Jackson: I have a question on how you track these women down: if they do not have National Insurance numbers, they surely have a National Health number, so there should be a way of finding them.

Mr Burley: Do you have any experience of how they deal with this in other countries? This must be a common problem, not just unique to Britain. Have they solved this problem in Europe, in your experience, or elsewhere?

Sally West: I cannot answer that one, I am afraid.

Dr Altmann: I do not believe they have the same kind of cut-off system in Europe. I think you get social credits in a different way; it is not quite the same. We have quite strict and convoluted qualification criteria, very often, in a way that other countries do not. I would have to look more closely to give you a detailed answer to that.

Q25 Glenda Jackson: We have received a number of submissions from women, particularly those born between 1952 and 1953, and House of Commons Library research puts the number of those women at 430,000. They believe they have been doubly disadvantaged by the increase in their State Pension age and their ineligibility for the single-tier pension. Are there any steps the Government could take to address this, or is this just an inevitable consequence of the changes to State Pension provision?

Dr Altmann: Sorry, do you want to go first?

Craig Berry: I was going to say that I do not think it is an inevitable consequence of introducing the single tier. It is perhaps an unavoidable consequence of introducing it now, as we are going through the process of State Pension age equalisation. That is not to say that single tier's introduction should be delayed for this reason alone, but surely the fact that we are equalising the State Pension age around the time we are planning to introduce single tier should be taken into account when we deal with the transitional system. I do not think we have dealt with that sufficiently so far.

Q26 Glenda Jackson: What would you do: equalise it up or equalise it down?

Craig Berry: There is a suggestion of a staggered introduction of single tier, so when women reach the State Pension age of men born on the same day, they will then transfer over to the single-tier system. Options like that should be explored.

Dr Altmann: I think there are two issues bound up in this. The first one is women who were born from 1952 up to April 1953, for whom men born on the same day as them will be on the higher tier, but they will stay on the old system.

Q27 Chair: Ros, you just said, "They will be on the higher tier."

Dr Altmann: Sorry, the new single-tier State Pension.

Q28 Chair: That is part of the confusion, is it not? Everybody is assuming that if they go into the new system they will get more money, but from what we were told yesterday, only 50% will be better off and 50% will be worse off. Is that about right?

Craig Berry: You have to maintain a safeguard of allowing them to get the better of the current or the new system.

Chair: But that is where the confusion is coming from.

Dr Altmann: Can I address that one, Chairman?

Chair: Yes.

Dr Altmann: For the people who are coming up for retirement immediately, most of the women moving on to the single tier will be better off, and the men will not be affected, because if you are above the single tier at that stage, you will not lose anything. It is people retiring in 20 years' time who will potentially have less than they otherwise would have done. The immediate issue is that we are protecting the extra rights above the £144 for those coming up for retirement immediately, and it is only those over the next 10 or 20 years hence who would have had more out of S2P than they will get from the £144 who could, if you like, perhaps be termed losers. The issue at the 2017 point, or whenever it comes in, is that most women then are likely to have a better pension under the single tier than they otherwise would. Most men will be unaffected.

Q29 Chair: But not necessarily £144, because of the protected rights.
Dr Altmann: Correct. If you assume the contracted-out element with the single tier, that is right.
Sally West: The impact assessment, which I happen to have here in front of me, is that for people reaching State Pension age in 2017, the median gain is £9 a week. The maximum you could gain is the £37—the difference—but, as you say, most people will not be in that situation of going from £107 to £144, because of the complexities of Additional Pension. However, as Ros said, we know women will be more likely to be in this position, and we know that people very understandably feel that the State Pension age has been moved, and even if the first move was back in 1995, often people did not realise that their State Pension was going up, and some of the women in this group will have then faced an additional increase as a result of the 2011 Bill, and now feel that State Pension age has gone up again but they will not benefit.

Q30 Glenda Jackson: One of the areas here is that they are born on the same day as a man, but they do less well than the man, it seems to them, at this moment. We are going back to the communication issue here, are we not?
Sally West: Yes, but there would be ways round this. You could say they could choose to be treated the same as a man born on the same date; you could say, as Craig says, once they get to April 2017, or whatever date it is, then the pension could be increased, were they due for a higher one.

Q31 Glenda Jackson: So there is room for manoeuvre as far as the Government is concerned?
Sally West: It would be possible to do, yes, certainly.

Q32 Glenda Jackson: But there has to be the political will to do it, essentially?
Sally West: Yes.
Glenda Jackson: Thank you.
Dr Altmann: And there would be a cost attached.
Glenda Jackson: Oh, well, of course. We know about the cost.
Dr Altmann: There are two groups. There is the group born before April 1953, and there is the group in the April-July 1953 category, who had the second increase in the State Pension put upon them, if you like, by the Coalition. As that legislation was going through Parliament—and you remember it was pretty contentious, because there had been a promise that they would not face a second increase in State Pension age—the implication was given that, although they will have to accept a second increase in their State Pension age beyond the 1995 changes at very short notice, they would at least get the single-tier State Pension when it came in. The Green Paper said it would be introduced in April 2016.
That will not now be the case, so they will have the second increase in the State Pension age, and they will not be on the new single-tier State Pension system. There is also, of course, the possibility that the timetable will slip and it will not be April 2017. So although at the moment we are talking a certain number of people, the number could increase significantly if the introduction date is delayed. I believe we need to have some transitional protection for women who find themselves in this category. The other side of the argument that I think the DWP would put is that these women are getting their State Pension earlier than men, so they are going to get more and they are likely to live longer, so over the balance of their lifetime they may end up getting more money. However, I think one needs to look at the immediate impact rather than the longer term impacts, and the concepts of fairness here.

Q33 Jane Ellison: The time to plan is something that everybody always mentions.
Dr Altmann: For me, that was the biggest problem. I never had a problem with equalising men and women's State Pension ages. It did not make sense for men and women's State Pension ages to be different, especially in the context of improving State provision and more women working, and so on. It was giving people fair notice, and it was clear that this second increase in pension age did not give many women enough time to plan their finances, having thought they were on course for a certain date, and planned around it. When you only have five years' notice, some have already retired and are caring for others, having taken that decision based on finances that will not come through. We need to bear that in mind.

Q34 Sheila Gilmore: I wanted to ask Sally, in particular, about this issue of the derived and inherited rights. In your written submission you said there should be a way of ensuring that these are protected. How would you define the group of people, and what protection should be in the legislation?
Sally West: I should say first that I think it is right that the State Pension is an individual entitlement. I have absolutely no problem, particularly going forward, with explaining that you have your own right to a pension. We are mainly talking about married women; derived rights affect married couples and civil partners, but because of historical issues we are mainly talking about the position of married women. Most people do now have contribution records or credited records for raising children or other reasons. There is protection in the legislation for people who paid the reduced rate married woman's stamp, which is right, because that is a big issue, as you probably

know from postbags, and there is also protection for the inherited Additional Pension.

However, there seems to us a gap: there will be some women who were expecting to rely on their husbands' contributions for a basic pension who will suddenly find that, if they retire under the single tier, that will not be the case, and in our written evidence I gave the example of a woman I have been talking to. She has just eight years' contribution record. She has had poor health for a lot of her life, and she and her husband decided that he would work and earn, and they could manage on his income. She felt it would put pressure on her health to try to work or to work, so they agreed that they would live on his income. She did not claim benefits. She said she did not want to claim benefits, but in any case she was not sure she would get anything.

They were both assuming she would get a married woman's pension when she gets to State Pension age, and that if he dies before her, she would get the basic pension as a widow. Now it appears that will not be the case, because she will be reaching State Pension age under the single tier. It is really important when we look at the foundation pension in 2017 that people in this position, who could reasonably have expected to use their husband's contribution records, do not suddenly find they are left without a pension at all. She has now started signing on, because she says, "At least that will give me an extra four years, so I can get my pension contributions up to 12 years," but that would still be 12 years at £4.11; it will be nothing near a full basic pension.

This is a particular issue. I am not saying we have any problems with the issue of not having derived rights, but where people have that legitimate expectation that they would receive a pension on their partner's contributions, it seems very unfair to suddenly say, "We are changing the rules and you should have done something different for the last 40 years."

Q35 Sheila Gilmore: Are there implications for women divorcing, as well? In the past, at least—I am not quite sure of the current position—on divorce, even if you were not yet at retirement age, you could in effect get an advantage. If you had not been working, then you could adopt part of the husband's contribution record, and as a family lawyer some years ago, that was quite a valuable thing for a lot of women, so they then had a base. Obviously once they were divorced, they had to go on with their own contribution record, but it gave them a base on which to build,

Sally West: That is the situation; at the time of divorce you can in a sense substitute your husband's—or wife's, but it is mainly an issue for women here—record, and then any other future years, up to State Pension age, you build up on that. It will be the same situation. Again, most women will be in the situation that their own contributions or credits will give them at least as much as the basic pension. I think you would need about 26 years in the single tier to get to £107, and 35 years to get to £144. As long as you have something around 26 years, you will get something equivalent to what you are expecting. Again, there will be women in that situation whose husbands have said, "I do not want you to go out to work. I am not allowing you to go out to work." You might have couples who are assuming that the husband's contributions will be the record they will both depend on.

Q36 Sheila Gilmore: Is there a particular issue for women who might be in that position who, say, were divorcing at a later date? Somebody in their 20s or early 30s has plenty of time, normally, but again it is not uncommon, and I acted for a lot of women in that position, who were already at an age from which it would have been extremely hard to build up their own individual contribution record, even under the previous system.

Sally West: A lot of women will have protection, having raised children, and particularly in the past, the credits for raising children went on to a higher age. Now it is only up to 11. There will be a lot of people in that situation who will be okay, because of their own individual rights, the credits for children or caring, and earnings, but there will be women—and the DWP tell us it will be quite a small number of women—who will be affected. That is fine; it ought to be possible to find a solution, and not a particularly expensive solution, if the numbers are small, but I think we do need to look at making sure that people do not miss out because of that.

Q37 Sheila Gilmore: If it is a small number, it is an issue for Government as to how much they have to pay, potentially, but for each of these people, this could be quite significant.

Sally West: Yes, it is potentially a big impact for a small number of people. It is something we need to look at, and the legislation ought to have some protection for this group. It is not something we will need in 20 or 30 years' time, because, as I say, as long as people realise this, they will be able to build up their own record, but I believe we need protection for people who are heading towards pension age and are not able to change their plans.

Dr Altmann: I believe the intention is to protect them. I think it is just a question of identifying who they are, and then making sure that the Bill covers them.

Q38 Sheila Gilmore: But we need it in the Bill.

Dr Altmann: Yes, absolutely.

Sally West: The legislation covers inherited additional pension, and time when people paid the married woman's stamp, but at the moment I do not think there is protection for the group I am talking about.

Dr Altmann: Yes, which we need to put in.

Q39 Teresa Pearce: Just a quick question: you just mentioned women who are raising children and getting a credit. Currently, at this moment, there will be women making the decision not to claim child benefit, because the other person in the house earns over a certain amount. They can either be taxed on it, or they stop claiming. Is there any information around informing those women of the pension consequences of that decision, do you know? Anybody?

Dr Altmann: I do not believe there is yet, but I believe it is important.

Q40 Teresa Pearce: The decision they make has serious pension consequences, and HMRC certainly are not informing them of that. I wondered if you were aware of anything else.
Dr Altmann: I have not seen any.
Sally West: It is certainly an issue that is being considered. I am not sure what people are sent directly about that.
Teresa Pearce: Not much.
Sally West: Yes, it is another important issue, and it goes back to the things we have referred to a number of times. It is just making sure that people, at a younger age, think about their pension.
Chair: Throughout all of this, with regard to women, they do not know how they are building up the credits, and what their pension will be made up of. There is a big education job to be done with younger women about how they get it.

Q41 Nigel Mills: I want to check something Sally said about women who are relying on their husband's record needing 26 years to get the £107. Presumably they are only expecting 60% of £107 in that situation, so it is more like 16 years record they need to find, to get roughly the amount they are expecting.
Sally West: Yes, 16 years, for the 60% pension, but also, if somebody is a widow or divorced, then it is £107, yes.

Q42 Graham Evans: Several witnesses have stated that the single-tier pension is too low at £144. At what level do you think it should be, and how might the additional costs be met, while keeping the reforms cost-neutral?
Craig Berry: It was always going to be difficult to make this kind of systemic change to the State Pension while maintaining cost neutrality. It is important to point out that the Government has not maintained cost neutrality, because they are getting increased National Insurance revenue and there will be a saving to the system in the long term as well—I think in the 2050s it begins to cost less than the current system does. That principle of cost neutrality can be questioned. £144 a week is too low, and it would cost more to raise it. Raising it would overcome a lot of the difficulties around short-term losses from Savings Credit being abolished, long-term losses from earnings-related State Pensions being abolished, so either introducing it at a higher rate or uprating it much more quickly to deal with the long-term losses would be necessary.
Sally West: I agree. The £144 is just £1.30 over the basic Pension Credit rate. We have not really talked about the loss of other means-tested benefits.
Chair: We are coming on to that. Hold that thought. That is the next set of questions.
Sally West: I think the level needs to be sufficient to take people above means-tested benefits, and act as a platform. If we look at the Green Paper, there was a larger gap. The single tier was about 5% or 6% higher than the basic pension credit rate. That probably ought to be the sort of minimum, but it is difficult for us to put a figure on that. We would clearly like it to be as high as possible, but if you take the Pension Credit as a kind of benchmark, you definitely need a bit of clear blue water between that and the single tier.
Dr Altmann: I do not think that I have said that £144 is too low. I think the logic of having it just above the means-tested Pension Credit threshold is sound. If we as a society decide that the appropriate level for means-tested benefits for pensioners is the Pension Credit guarantee, then the State Pension needs to come up to at least that level. If there is any extra money in the system, what I would like to see is existing pensioners being moved on to the new system, because they are the ones who are most likely to be in poverty. They are the ones who are least likely to claim even the Pension Credit level, so they are often surviving on even less than that.
That is where the big problem lies. They cannot do anything to save more for themselves now. They cannot do anything now to make extra financial provision, whereas as we go forward, this base allows people to realise, "This is the level society will give you. It is all we can afford, but you will know what it is, and you are on the hook to do something for yourself if you would like more than that."

Q43 Stephen Lloyd: Thank you very much. We are moving on to the Pension Credit thing, but just before that, I have one question. Obviously there are complexities around moving from one system to the other. I have been listening very, very carefully for the last hour. Recognising the simplicities, I am not clear whether the three of you, excluding Ros, think that the new single-tier pension is better than previous? Some of what you are saying indicates that maybe it is worse. Could you clarify that? Would you agree or disagree that the single-tier pension will be better for the vast majority of people compared with what they currently have, or not? Let us start with you, Craig.
Craig Berry: Whether or not it is better for the majority of people depends on when they reach State Pension age, because the impact assessment is very clear that in the future, say people retiring in the 2040s, the vast majority of them will get less from their State Pension.

Q44 Stephen Lloyd: Would you prefer it if, rather than the change, the Government stayed with what it was?
Craig Berry: This is not incremental reform. They are two very different approaches to providing a State Pension: a basic State Pension with an earnings-related top-up versus a single, universal, flat rate amount. The benefit of simplicity should not be undervalued. Simplification is an extremely worthwhile objective, and I believe it can help to improve private savings rates. Hopefully it will act as a spur to improve the quality and cost of private savings vehicles.

Q45 Stephen Lloyd: So pinning you, as the TUC, down: overall, despite some of the drawbacks, which you allude to, in 40, 50, 60, 70, 80 years' time, so to speak, would the TUC agree that the new single-tier pension is better for the majority of people than just staying where we are?

Craig Berry: As I say, it has clear advantages over the current system. If it were introduced at a much higher level, a level we believe would be appropriate, then we would be in a position to evaluate it further.

Q46 Stephen Lloyd: That is great, thank you. Emily?
Emily Holzhausen: Yes. In the short term, some people will be better off.
Stephen Lloyd: Are you talking 40 or 50 years, so to speak?
Emily Holzhausen: Shorter than that.

Q47 Stephen Lloyd: What I have here, Emily, is that up to 2040 65% will be better off, and then at 2060 it will be around 50% better off.
Emily Holzhausen: Yes.
Stephen Lloyd: That is where I am pinning you down. The language is quite important, because some of the groups, obviously, are saying, "Short term, short term." We know the issues around communication with pensions. I get contacted by people who I know will be better off, who are saying, "This is a disaster, Stephen, because we hear we will all be worse off." You can understand the responsibility of language.
Emily Holzhausen: Of course, absolutely. I think we come back to the communication. This is one of the complexities of pensions. I have talked to a few women over the last few days, trying to work out their records and how they will be affected, and having worked on pensions over the last 20 to 25 years, it is so complicated that it is incredibly difficult to work out people's different scenarios. Carers UK has tried to look at where the gaps are and prevent all those people who have contributed what is, in effect, billions to the economy by caring for older and disabled relatives ending up in poverty in retirement because of a combination of caring for children, caring for relatives, and not being able to predict what happens in their lives.
We are not experts on the absolute levels. I would say that, and I would defer to the greater knowledge of my colleagues here. There are still specific groups over whom we have concerns. There are some improvements here.

Q48 Stephen Lloyd: Agreed, but overall would you, representing Carers UK, say that the new STP[2] means that more people will be better off than currently, or would you say, "No, let us forget the STP and stick with what we currently have"?
Emily Holzhausen: We definitely think there is merit in simplicity.
Stephen Lloyd: Good, thank you. That is great.
Emily Holzhausen: That is so important, notwithstanding the communication problems we still have around the fact that this is a contributory benefit and you need to get your credits. So Jane's point is critical.

Q49 Stephen Lloyd: I agree. Sally, overall?
Sally West: Yes. We are definitely supportive of the idea of a single tier, a simpler system, a better pension for people who have very low earnings and are caring, and reducing means testing, but we would like that to be done by better State and private pensions rather than reduced means testing.

Q50 Stephen Lloyd: No, I appreciate that. I will not go to you, Ros. On to pensions credit: this is one of the classic challenges around communications. All of us MPs around the table know that in our own constituency, despite everything we do, we still have anywhere between hundreds and possibly thousands of people who should be on pensions credit and we cannot get them on it, so it is always difficult. Do the benefits of simplicity that you have talked about and we have discussed, and an increase in the single-tier pension for some people, outweigh the potential loss that some poorer pensioners will face from the abolition of savings credit? Ros, shall we start with you, please?
Dr Altmann: I think that the aim of the reform is so important that we have to accept the reduction in income with savings credit. I would prefer that we had more of a transitional arrangement to protect people who have saved, and who then claim and lose out. Savings credit has already been reduced. The value of savings credit has already been devalued in recent policy changes anyway. Of course, again, once you reach State Pension age, the incentives to save that savings credit are meant to address no longer really apply. I would prefer to see transitional protection, but the aims of the policy—to establish a simple State Pension that people understand and can then build on and plan for—are important and valid enough to overcome that objection, but I say that reluctantly.

Q51 Stephen Lloyd: I understand. Emily, I know, with the fantastic work that Carers UK does, this will include some of the people you represent. What are your thoughts on it?
Emily Holzhausen: I have not looked in depth at this particular issue. I can go away and have a look at that, and come back to you on that.

Q52 Stephen Lloyd: That is fine, thank you. Sally, can I ask you?
Sally West: We would like to see a system in which we do not need so much means testing. If you look at the impact assessment, although Pension Credit rates will fall as a result of the single-tier, it is mainly because of loss of benefit rather than increased level of single tier. That is a concern. In the medium to longer-term, you should not need something like Savings Credit, because people ought to have a reasonable income from their State Pension, and people will have had automatic enrolment and they should have better opportunities for private provision. Then you will have a simpler system and, as I say, many older people do not claim the benefits they are entitled to.
One of the reasons we support the single tier is that it should reduce that, and that is one of the reasons why, like Ros, we are very concerned that current pensions are not included. The loss of Savings Credit overnight is a potential problem. It is worth up to £18 a week for a single person. There is something in the White Paper about some transitional support with housing

[2] Single-tier Pension

costs, rent and council tax. We do not know the details of that, but what we need to do is look at the transitional generation—the people reaching single tier in the first 10 years—and whether we need to do more within the means-tested benefits so that there is not a stark difference between people reaching State Pension age before and after the implementation date. Just to go back to the very first question, when your colleague was asking whether it was low earners or high earners who would benefit, some of the lower earners who will be worse off will be those who lose Savings Credit, and I think it would be unfortunate if we had people who, in the early stages, were quite a few pounds worse off as a result of the means-tested benefit. Longer term, yes, let us have a simpler system, but perhaps we need to look further at the transition arrangements around the benefits.

Sheila Gilmore: Is it not possible to reduce dependence on means testing without making people any better off? What you do is drop the means-tested protection. There is an assumption, and everybody says, "Great, there will be less means testing." The assumption is that people will be better off as a result, but will there be people who may be no better off and might actually be worse off? What about passported benefits?

Chair: That was going to be our next question, but time has moved on, and we have it for the next panel, so, Sheila, you hold on to that as well, and we will ask the next panel. I will wind this one up. If there is something you are desperate to say, please give it to us in writing. I am sorry we do not have enough time, but we are very short of time, anyway, to do this part of the scrutiny. Can I thank you very much for coming along this morning? What you have had to say has been very interesting, and it will help us when we come to make our recommendations to Government.

Examination of Witnesses

Witnesses: **Baroness Hollis of Heigham**, **Paul Johnson**, Director, and **Gemma Tetlow,** Programme Director of Pensions and Public Finances, Institute for Fiscal Studies, **Chris Curry**, Research Director, Pensions Policy Institute, and **Professor Jay Ginn**, Women's Budget Group, gave evidence.

Q53 Chair: Thanks very much for coming along this morning. I think most of you were listening to our first session; some of the questions will be similar, but there will obviously be slightly different questions as well. Can I begin perhaps with you, Patricia? Please introduce yourselves briefly for the record.

Baroness Hollis: Patricia Hollis. I was DWP Minister in the Lords and did various pension Bills, including Pension Credit and S2P, pension sharing on divorce, etc. Then, just before the last General Election, I wrote a pamphlet calling for a new single State Pension, so I am very much a supporter of it but I do have three or four real concerns that, if opportunity presents, I would like to air.

Gemma Tetlow: I am Gemma Tetlow. I am Programme Director of Pensions and Public Finances at the Institute for Fiscal Studies.

Paul Johnson: I am Paul Johnson, Director of the IFS.

Chris Curry: Good morning. I am Chris Curry, Research Director at the Pensions Policy Institute.

Professor Ginn: Good morning, I am Jay Ginn, King's College.

Q54 Chair: This is basically the same question I asked the first panel: does the draft Bill offer sufficient clarity on the implications of the reforms, and is it acceptable to leave so much of the detail to be worked out later on and to regulations, rather than being on the face of the Bill? Who would like to start?

Baroness Hollis: I do not think that is unusual. Pension regulations are often the result of elaborate negotiation with the stakeholders, and I think it is perfectly appropriate that you have a framework Bill, particularly as we have had very extensive Green and White Papers and consultation before, as well as this pre-scrutiny. I think that is an appropriate way to proceed, but there are a number of issues that are not covered, by definition, in either the Bill or the White Paper that I am worried about. As I say, I am an enthusiastic supporter for it, above all because, apart from pensioner poverty and women's issues, it makes it safe to save. Without this, I do think we could risk a mis-selling scandal on NEST[3], for example.

The issue I am worried about, Chair, is what I am gathering about the funding for all this. The funding just about works out, according to our pamphlet work from Landman Economics, but I now understand that some of the funding that is coming from S2P is going to go into social care, so we were told in the last week or so. If so, it cannot be spent twice, and I worry about where the funding is going to come from for this. The obvious answer is that you will increase faster the state pension age (SPA), which also worries me, because on page 72 of the White Paper, footnote 85 makes it clear that the Government is expecting the period of retirement to be a virtual constant at 21.4 years. This means that increasingly, as people live longer, the period of retirement will shrink as a proportion of their total lives and it will carry more years of disability. So there is an issue there that I am quite concerned about, particularly if the response to inadequate funding is to raise the retirement age even faster than that proposed, to 67 and 68.

Then I have a number of smaller concerns. I dislike the fact we are losing the ability to defer a State Pension and roll it into a lump sum rather than into an increased pension, because what a lot of people want is a modest amount of capital at retirement, not just an increase of income. I think they will then, as an alternative, go to dubious credit/debt agencies or possibly less well informed equity release patterns, and I hope we will run amendments to try to bring

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[3] The National Employment Savings Trust, set up when automatic enrolment into workplace pensions was introduced.

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that back in. I do not understand why that has been excluded; I think it is very unwise.

I am also worried, as was picked up in the previous discussions, about ensuring we have adequate protection, particularly for women with very volatile working lives, given caring responsibilities, so that there are adequate credits and buybacks and all of that for them, including the right to be able to amalgamate a portfolio of jobs that are below the LEL. Given Universal Credit, which interestingly has not been mentioned so far, and the real-time information going from employers ultimately to the Secretary of State, it would be very simple now, in my view, to be able to amalgamate small jobs and get women with a portfolio of small jobs above the LEL and into the NI system.

So there are a lot of workarounds that are now possible given the interaction of UC and the proposed Bill. There are other concerns I have, but those are my main ones.

Chair: Thanks very much.

Chris Curry: As you have stated, it is very clear there are a few quite important things that are not on the face of the Bill and will not be set. But as Baroness Hollis alluded to, there is always the trade-off between flexibility for implementation and certainty as to what is going on. It is interesting that one of the main objectives of the Bill is to provide certainty in outcomes for State Pensions, and it seems we just have to wait a little bit longer to get that certainty in order to help people with their planning. But I think it does also make analysis of the implications of the Bill quite difficult, because quite small changes, potentially, in for example the level of the benefit or the indexation arrangements, could have quite significant implications on the numbers of people who gain or lose at any one particular point in time or the types of groups who end up being gainers or losers. So the sooner we can get indications of some of the key parts of the policy, the better—in particular the date of implementation, as we have already heard there are some very important implications coming from there.

Professor Ginn: Shall I summarise the comments that I have made in my paper? First of all, I think it is, in principle, a good idea, but there is a lot of difference between the principle of fairness and simplicity, which is the aim, and the way it is being drafted. In particular, the level of the Single-tier Pension (STP) is too low for a decent standard of living for those who cannot get any pension above that level.

Secondly, I have worries about the 35 years, because, as was explained earlier this morning, this will leave many women falling through the gaps in credits or employment, and unable to reach the 35 years and falling back on to means testing.

Thirdly, removing the S2P is part of the simplification, but it does have a cost for women. That was the only earnings-related pension in which women with caring responsibilities could still aim for a good replacement wage in retirement. In private pensions, they will be penalised for every gap in employment. It will make no contribution to their final pension. So I think the loss of S2P is very serious, particularly for women with caring responsibilities, which is most of them.

Indexation: because of their different spending patterns, the RPI was never enough to compensate pensioners for the rise in the cost of living, and that is likely to continue. A triple lock is an advance, but the CPI is even lower than the RPI[4] and, therefore, I do not think indexation will be adequate. That affects women more than men because of their greater longevity.

Raising the State Pension Age is also an issue, as Patricia has described, and I suggest that there needs to be some compensation for those who cannot work anymore because of health or caring issues and yet are below SPA, if it keeps going up, as is planned.

I also have concerns about the particular birth cohort, and that has been mentioned already and perhaps we could come back to that.

I think there is financial leeway to improve the STP and make it much better than it is at the moment.

Q55 Chair: Paul, do you want to add something?

Paul Johnson: There is one issue that is not in the Bill, perhaps not surprisingly, but is potentially a very important one, which is the question of whether there will be any change to the National Insurance system, particularly for the self-employed in response to what is a very significant change in the level of benefits that they are going to receive.

Chair: We have a question on exactly that point coming up, so we might get a chance to explore it. A lot has been said about winners and losers, and Aidan has some questions on that.

Q56 Mr Burley: The first question is to the IFS. I know you welcome the simplicity the proposals will bring, but you concluded—and I quote—"The main effect in the long run will be to reduce pensions for the vast majority of people whilst increasing rights for some particular groups." Can you explain to the Committee why you think this is the case? Then we will open it up to the other witnesses as to whether they agree or not.

Gemma Tetlow: Our point essentially was that if you think about the current State Pension system, with the State Second Pension and Basic State Pension, for people who are doing an activity in a year that earns them credits to both of those systems, whether that is being on low earnings, caring for children under the age of 11 or caring for sick or disabled adults, the combined entitlements they would get from the Basic State Pension and the State Second Pension under the current system, for any given number of years of contributions, will be higher than what they would be promised under the single-tier pension. So, the group of people who qualify for the State Second Pension at the moment would get less out of the single-tier pension than they would out of the current system. The exception that we were particularly drawing attention to was the self-employed, who are one significant group who do not get credits to the second-tier pension at the moment.

[4] Consumer Price Index and Retail Price Index

Paul Johnson: The key point here is cohorts retiring after around 2040 or 2050—it is hard to be precise when—will clearly, on average, be worse off as a result of these changes. Of those retiring in the 2020s, there are quite a lot of gainers, and so there are short-term gains and long-term losses. You can see that directly in the DWP numbers, because it costs less in the future, and the only way it can cost less is to have people getting less.

I heard some of the discussion earlier in terms of when this starts to happen, and I think one of the Members was referring to 2060, with 50% losing and 50% gaining. Now, I think that refers to the stock of pensioners, not those who are hitting retirement at that age. The way the DWP chose to present all these figures was to show the stock of pensioners. Therefore, obviously, if a lot of people retiring in the 2020s and early 2030s are gaining, by 2050 it remains the case that the majority of those who are pensioners in 2050 will be gaining, but the majority of those retiring in 2050 will be losing as a result of this.

Q57 Mr Burley: Baroness Hollis, you are shaking your head.

Baroness Hollis: Obviously, I would not dispute Paul's figures on this, but every time we change legislation there will be a different array of winners and losers. Particularly when we went from SERPS to S2P, which is a Bill I had the pleasure, if not the fortitude, of taking through, there were a lot of potential losers, but the key thing is you protect accrued rights. I do not think you have a moral obligation to protect notional future rights that you would have accrued had no change happened, because every time there is a benefit change this is the case.

The second thing I would add is that we should not see this, in my view, in isolation from what is happening to auto-enrolment, because at the moment, given means testing—and this was touched on by your previous witnesses—it is highly risky to save. If you went into auto-enrolment without this, you would be trying to work out at the age of 25 what benefits you were on and whether you would or would not be married at the age of 55 or 60 as to whether you should or should not auto-enrol. This is an unreasonable choice. You do not control your future life volatility in that way. So what this does is take the risk out of private saving. It means every penny that comes through in auto-enrolment you can have, so that the higher earners will be able to substitute for what they would have got in more generous S2P, in my view, with contributions through into auto-enrolment. The total package of retirement income should have a secure foundation of a State Pension and then a top-up of private savings through auto-enrolment, including NEST, and it is up to you to determine how important that is to you. That seems to me to be treating people as moral adults.

Chris Curry: The first point I would have made is the one that Patricia made very well at the start, which is that what we are talking about here is not taking away from people benefits that they already have. We are talking about them building up less in the future than they might otherwise have done had the system stayed exactly the same as it was. One of the questions I have is: if we had not had this change, what other changes might have happened to the system? Would we have managed to spend 8.5% of GDP on State Pensions in 2060 anyway without this change? It is important to bear in mind that we are comparing single-tier, with a relatively quick transition, with a current system that is still in transition and will be for another 40 or 50 years. The current S2P reforms, even though they were started back in 2000, will not feed right the way through until 2050 and 2060. You can see that in the way the costs build up, and so perhaps the DWP and the Government as a whole have constrained themselves a little bit too much in trying to meet the short-term costs of a half-reformed system and use that as the baseline for a full system going forward. In a way, they are under-spending compared with the current system, because they are not meeting the generosity of the current system that would have been there when it had fully fed through.

The other very important point to bear in mind in our analysis, which we have done alongside the IFS, is very similar. We find that if an individual, for example, on low earnings and with career breaks, reaches State Pension age in 2017, they might only have a current State Pension entitlement of around £132 a week compared with the £144 single-tier. An individual with exactly the same history but in a different cohort reaching State Pension age in 2037 might have built up £150 under the single-tier system, given the triple lock indexation. It is slightly higher than £144, but £154 under the current system. So, even a low earner with career breaks might have got more under the current system, even by 2037, than they would do under the single-tier.

The important fact that I do not think has been raised yet today is that they might end up getting a lower State Pension at the point at which they retire, but the way in which the pensions change after retirement and the indexation arrangements mean that within five years that low-earning individual would get more under the single-tier system than they would do under the current system. That is because with the single-tier the whole of the State Pension is indexed, in my understanding, at least in line with earnings, in the illustrations, and potentially in line with the triple lock. In the current system, only the Basic State Pension has that increase, and the State Second Pension rights on top of that are only indexed in line with the Consumer Price Index. Now, that could be a difference of, potentially, 2% a year in how that increases over time. So it does not take too long before people who initially had lower State Pension entitlements under the single-tier system can end up, at older ages, with a higher State Pension than they would have done in the current system. I think that is an important fact and helps to explain some of the figures the DWP have come up with, in that it is not just people who retire in 2020 to 2030 who are gainers in 2060, but even people who retire in 2040 to 2050, who may have initially had lower State Pension entitlements, eventually end up higher than they would have been.

Baroness Hollis: That is exactly it.

Q58 Mr Burley: You have all touched on this rebalancing that is happening, and I just wondered whether you agree that this rebalancing is the right approach. So you have the equalisation of men and women; you have the single-tier pension that broadly gives more to lower earners and those with gaps in their working lives and less to higher earners. Do you think this rebalancing is right in principle or do you disagree with the fundamental direction of travel of this?

Paul Johnson: There are two things here. Is this giving more to lower earners? In the long run, no, it is not. I think it is really important to be clear that, in the long run, in equilibrium this is giving less to lower earners, to carers, to women than would be the case in 2060 or 2070 if the current system carried on. I agree entirely with what Chris and Baroness Hollis said about the fact that this is not stuff that they have already accrued, and therefore I do not have a problem with the Government doing this, but I think we need to be absolutely clear that lower earners, women who have taken time out of the labour market, as a result of these changes, compared with a world in which no change had been made, will have a lower State Pension income in 2060 than they would have done. That is also true when you take account of the indexation, once you get that far down the road. In the particular example that Chris gave, that particular individual would only take five years or so to catch up on the indexation. Once you get 20 years later and the initial gap is higher, it takes until you are in your 80s before that catches up. We have done some calculations here that show net present values of these things for most people will be lower in the long run. I think that is important.

What is the rebalancing that has been happening? There is a lot of rebalancing happening in the short run, which is giving significant additional money to the groups that you are talking about, the low earners, particularly those who have taken time out of the labour market before 2002, which is the crucial cut-off date here. So there is a significant additional amount of money going to the earlier cohort of pensioners and, for reasons that Chris described, there is a good economic case for taking money from later cohorts because of the additional cost. I think that is the crucial rebalancing that is happening. There is rebalancing in the short run towards particularly women and carers and people who took time out of the labour market before 2002, and there is a rebalancing away from the whole of the later cohorts, but more from the higher earners.

Baroness Hollis: I think it does seek to rebalance. I absolutely agree that there are different winners and losers, so to speak, notionally—and I do emphasise notionally—the further down the line you go. But certainly women, the self-employed and BMEs[5] too will gain significantly from these proposals. What is key, it seems to me—and this is inappropriate for a framework Bill but will have to be looked at in terms of regulations very carefully—is to ensure that there is sufficient coverage for credits, particularly for carers, and the right to buy back, which some of us were fighting for, so that you could make up gaps in your years. What worries me, and I am hoping this will be clarified in the course of the Bill, is of course women in their 50s, who may have two generations below them to look after and possibly even two generations above them to look after; the longer their own parents and grandparents live, the more likely they are to be out of the labour market at just the time in their 50s when they should be building up their pension. Therefore, what is going to be key to this is to smooth out the volatility of women's caring lives, so that we ensure that at retirement age she has her 35 years of credits or NI paid contributions. That is what I call the small print detail, but providing that is secure, including the right to buy back, I think it is very welcome.

The other way it is rebalancing—I know I keep hammering on about this, so forgive me—is that it also makes it safe to save. We should not see this, in my view, in isolation from what is happening with auto-enrolment and NEST, because that is the layer on top that in the past people, particularly men, went into SERPS to produce. Now they will have this as a legal right and entitlement, and it will be their choice as to how much they invest in it. Put the two together and even the notional losers on the State Pension reform can protect themselves perfectly adequately if they choose so to do.

Chris Curry: I am not as sure that there is that much of a rebalancing going on if you look at this in the longer term. I think this is really a continuation of the policies that were put in place or recommended by the Pensions Commission, who quickly identified that, with an increasingly ageing population, it was going to be very difficult for the State to continue the role of looking at replacement incomes provided through the State. So the reforms that they recommended and were put in place in the 2007–08 Act started down this road of making sure that outcomes across the State Pension system were much more equal. The difference is in the initial reforms it took much longer to do that: it was 2050 or 2060 before you got to the situation where men and women, in theory, were retiring with the same retirement incomes in general. What this Bill does is bring that forward and do it much more quickly, so I think the overall shape is very similar under a single-tier to what it would have been eventually under the current system with the Basic State Pension and State Second Pension. The key thing here is that, by doing it more quickly, it helps a lot more people in the short term compared with the current system. But, as I said, by constraining it to expenditure in the shorter term it has ended up being less generous in the longer term than the existing system would have been.

Baroness Hollis: Chris, an awful lot of the credits that women will now get, which takes them into the new single State Pension in full, would not have given them any eligibility for S2P, so there is a major rebalancing there for those who are not in the waged labour market.

Chris Curry: Although we still need to see exactly what will qualify as credits in the single-tier to be able to make a definitive statement on that.

[5] Black and minority ethnic people

Baroness Hollis: Yes, absolutely.

Q59 Mr Burley: Professor Ginn?
Professor Ginn: I still have worries about auto-enrolment, because it is Defined Contribution (DC) and that is essentially risky. A lot of people are risk-averse and women are more risk-averse than men, so there is the investment risk in auto-enrolment. People do not know what they are going to get. It is quite justifiably seen as a form of gambling by some people.

Q60 Stephen Lloyd: Are you really saying that with NEST it is going to be clearly underpinned by the entire state? Even though I appreciate particularly this cohort are nervous about investing and saving, it is the always the challenge of every Government to try to get them to do that. Are you really saying that the underpinning of the Government of the day, whoever it is, to NEST will not assuage some of those fears?
Professor Ginn: Not everybody will get the full single-tier pension, so there will be people, particularly women, who get less than the full amount and will be eligible for means testing. Now, asking them to save in a risky DC pension is going to be problematic for those who are eligible for means testing. I also think that auto-enrolment means a subsidy from the Government and from the employer into the City profits that are made, and it is not necessarily to the benefit of the employee as much as to the people who handle the pensions. They are going to be handling billions of extra money every year, which is not necessarily to the benefit of ordinary working people.

Q61 Stephen Lloyd: For a start, I think it is going to be a giant bomb in the whole private pensions market, and we are already seeing that with charges coming down. So are you saying that in your judgment NEST is also part of this horrid, capitalist, unscrupulous cartel or are you seeing it as something that hopefully is going to clean up the horrid, capitalist, cruel cartel?
Professor Ginn: I do not think it can clean up anything, even though its charges are at the moment low and I hope they will stay low. Women who cannot enter NEST, either because they cannot afford it or they are below the lower earnings limit for it, will also be paying towards it, in the sense that employers will hold wages down for everybody. I also have the worry that employers will have a great incentive to keep people out of NEST and other schemes, because they do not want to pay their own contribution. So they have a good motive to keep wages down. That is another worry about auto-enrolment that I have for the low paid and for carers.
Chair: We are going to publish a report on pensions governance, and this discussion probably sits in there more easily, so I think we will move on, because obviously not all employers will go into NEST anyway.

Q62 Mr Burley: I have a quick question on the self-employed, who are going to benefit a lot from these reforms. Do you think it would be fair to increase the National Insurance contributions of the self-employed to pay for their more generous pension?
Baroness Hollis: Yes. I basically think that the self-employed should be paying in what certainly the employee would do. Whether it would be reasonable to pay in what the employer does as well is a different matter. Paul will know this much better than me, but if you look at the profile of the self-employed, it is not a continuous curve. There are a lot of people who are very low paid, who cycle between employment, self-employment, no employment and so on, and you cannot put on the heavy responsibilities of a sudden increase there. At the other end, you have people in the IT services and so on who are generously and adequately paid. Certainly they should pay in the full employee's stamp, but I think it would be unreasonable to expect them also to pay in the employer's stamp, particularly if they are low paid, unless one could make it income-related in some way.
Paul Johnson: There is not just a fairness issue here. There is a question here about whether there is any contributory basis here at all in any case, but I think the key issue is about the efficiency of the tax system. The current way of treating the self-employed for National Insurance is a huge open invitation to tax avoidance, because it is so much lower than you pay as an employee. Therefore, there is a very large incentive to be self-employed or to claim you are self-employed. This may offer an opportunity to close some of that gap.

Q63 Stephen Lloyd: Starting, again, with Baroness Hollis, are you satisfied or not that the proposals in the draft Bill constitute an improvement in State Pension provision for women and carers? If so, what benefits will the single-tier bring? If not, what further measures would you like to see?
Baroness Hollis: I think it will transform the situation for low-paid women or women who are in and out of the labour market. We know that by 2020 at the age of 50, and even by 2020 and at the age of 60, something like half of all women will not be in marriage. They may be in a relationship, but given that half of all marriages end in divorce and so on, they will lose the right to a dependency pension, even if they are co-habiting with somebody. Given their caring responsibilities, many of them have had very real difficulty accessing a State Pension of their own, but because they are in a relationship, they are excluded from a means-tested top-up. So they are caught: they cannot build a State Pension of their own because they have had caring responsibilities. They cannot get one derived from their husband because they are no longer married, but because probably they are in a partnership, they cannot get Pension Credit or a means-tested benefit either, because his income floats on top of it. So they are hammered three ways over, and what this will do is deal with all of that—clear all of that problem out of the way. Provided—and it is a big provision—there are adequate and appropriate credits and buybacks for women who have volatile, in and out relationships to the waged labour market, I think this will transform the situation. They will be able to look forward to a clear, simple,

straightforward, guaranteed State Pension. In the light of that, a couple would have an income perhaps of £15,000 a year, with housing costs possibly already paid. It would help to tackle their pensioner poverty and it would allow them all sorts of other freedoms. So what it does is tackle the potential poverty of individuals and couples, but it also ensures that women carry their own pension and do not look to either husband or employer—erratic employer perhaps, because they are in and out of the labour market—or the State, if you like, for means-tested benefits. They get it in their own right and, as a result, they can plan their future. Women's working lives are infinitely more volatile than men's, and, as a result, it gives them some sort of security at, I hope, a decent enough level when they retire, so I think it will be transforming.

Q64 Stephen Lloyd: Thank you for that. Professor Ginn, would you like to add anything to that?

Professor Ginn: I entirely agree with what Baroness Hollis has said so eloquently, but could I come back to the question of the cohort of women who have been excluded from S2P? I have had a sheaf of emails; they are most distressing letters from people who feel they have been hit by State Pension rises at short notice, which have thrown their plans into disarray and left them feeling they are going to lose £36 a week for the rest of their life. Now, I know that this is not necessarily true for everybody. Nevertheless there is that fear and that sense that their needs have not been considered and that they need some form of protection, such as, for example, being allowed to join the STP when they reach the age and it is implemented. Some negotiation needs to be done about a fair way of doing something for this cohort of women who at least feel that they have been extremely badly treated and ignored. As I said before, I think there is financial leeway to do that for them.

I also feel that women who are existing pensioners have lost out very badly over time. Many of them did not get home responsibilities protection and, therefore, had long gaps in their National Insurance record and lost out because of that. In fact, the older generation is far less likely to be employed and build up a National Insurance record. Therefore, their need is far greater even than working age women to have this STP. I wish some way could be found, as Sally West said, to include those who choose to be included in the STP even though they are over State Pension age.

Stephen Lloyd: Thank you very much.

Paul Johnson: Can I have one point of clarification on this again, about who is winning and losing and which group of women are benefiting? It is very clear that that group retiring from 2017 through to maybe the mid-2030s who have spent time out of the labour market, before 2002 in particular, will get a significant boost from this. That will retrospectively credit them for things they were doing in the past. It is very important to be clear that this does not benefit women who are, for example, currently looking after children, because they are already fully credited into the S2P and Basic State Pension and will end up with less under the new system than the current one. It is very important to be clear that in looking into the future, while this may provide more certainty because it is simple and straightforward, it does not provide more income to this group of women.

Stephen Lloyd: You can absolutely rest assured that, irrespective of what others say, what you and the IFS say about how people are going to lose out is continuously, continuously used as an illustration of how the single-tier is not a good thing. Now, I know that is not what you intended, but you can rest assured that your message that people are losing out is being used continuously. I think it is used wrongly and unfairly, but maybe that is a moot point between us.

Chair: On that, we will move on to ending contracting out.

Baroness Hollis: Could I just support Jay on the point about women who lose out twice over? It was a point very well made by Ros Altmann previously. That is the cohort who, because the state retirement age is below that of men, go into retirement with a lower State Pension than the new State Pension will provide. I would hope that we could produce transitional arrangements—maybe, for example, the right of women to defer taking their State Pension, given, after all, if they continue to fail to draw their State Pension, there would be a roll-up effect anyway to the increased income of about 5.2% a year, as is being proposed, down from the old 10.4%. Maybe we could think about that and perhaps enlarge on that generosity. There are ways in which we could, absolutely rightly, help these women who have been hit twice over—not just once, but twice over. I do think it is not decent that we should leave them exposed in this way.

Chair: That was a practical suggestion.

Q65 Nigel Mills: One of the side effects of this is we end contracting out of National Insurance contributions, which means that some people end up paying more National Insurance themselves and may see their occupational pension contributions reduce. The Government reckon that 90% of those people, as a result of getting the higher State Pension, will not end up worse off from that change. That clearly leaves about 10% who are going to lose out. Is that roughly the proportion that you think is right, and do you think anything could or should be done to try to smooth this out?

Chris Curry: That is a difficult question to answer, especially without seeing more detail of the DWP analysis and exactly how they calculated who has gained and who has lost from this particular change. It is not surprising, given the way that the transition has been set up, that from the DWP estimates 90% of those who have been contracted out will end up doing well from moving to a single-tier system. It is a specific feature of the transition here, which is very different from the original proposals in the Green Paper. It means that people who have been contracted out have more opportunity to rebuild State Pension entitlement and get a full single-tier pension and still keep the benefit of their previous years when they have contracted out, when they paid lower National

Insurance contributions and built up private pensions on top of that. We have an example in our written evidence of individuals, one who is contracted in, one who is contracted out, with exactly the same contribution history. You can see how the person who has been contracted out gets exactly the same single-tier pension, pays lower National Insurance contributions over part of their life and builds up something in the private sector built on the contributions the State has given them for being contracted out. I think the specific transition is very generous to people who have been contracted out in the past.
The 10%, if 10% is the right number, who do not gain are those who, in the same way as a certain proportion of people who have contracted in will not gain, have already built up strong State Pension histories, and maybe have not been contracted out all of their life and so have State Second Pension entitlements as well, which means they have built up more than the single-tier amount when it comes to 2017, or perhaps are getting very close to reaching pension age already and so do not have as many years to rebuild the single-tier pension. It is a feature of any transition that there will be groups who do well and groups who do not, but in this particular situation I think, as a group overall, people who have been contracted out do pretty well from the transition as it has been set out.
Nigel Mills: Nobody else on that topic?
Baroness Hollis: I would agree with everything Chris has said. I was interested that there appears to be different arrangements for contracted out DB schemes in the public sector from the rest of the occupational pensions. I understand the context of this, but we may need to see to what extent we can ensure that people in private sector DB schemes—I do not say final salary DB schemes—may also be treated in a similar way. It is something to be explored.

Q66 Nigel Mills: I am not sure we will see many private sector DB schemes. That might be a separate topic. The Government has not published any estimates of what the additional NI contributions for people in various bands are going to be. Paul and Gemma, is that something you have worked on yet or do you have an estimate of how much the extra cost is going to be for people?
Gemma Tetlow: We have not looked at it. I would not disagree with what Craig Berry said in the previous session.
Chris Curry: We did have a quick look at some of these things. There is a very handy calculator on the HMRC website where you can put in how much you earn and it tells you how much in National Insurance contributions you should be paying, so you can always check there. It ranges. For example, for an individual earning £20,000 a year, the employee would need to pay just over an extra £200 a year in National Insurance contributions and the employer an extra £490 a year. The maximum that we found that you could pay as an employee was an extra £480 a year; for the employer that increases to almost £1,200 a year. So you can see that there are some potentially significant impacts on the amount of National Insurance that people would have to pay.

Q67 Nigel Mills: Is that someone earning right on the upper threshold?
Chris Curry: That is right, yes.

Q68 Graham Evans: It appears that public sector employees will be protected from paying additional pension contributions when contracting out ends, because of agreements previously agreed on public pension reform. Is this acceptable, given that the public sector employers will have to pick up the yearly £3.4 billion bill? Essentially, the taxpayer is picking that bill up whereas private sector employers will be able to pass the costs on to their employees.
Baroness Hollis: I think it is a prudent position for DWP, given what is happening with public sector pensions more generally. Given that and given a commitment that there will not be a change for 25 years, as it says in the White Paper, I do understand the Government's position on this.
Gemma Tetlow: I would just say that, whilst they have said they will not change the pension rights, one other way to recoup the cost is to hold down pay relative to what would have happened had you not done this reform, and we will never know what public sector pay would have been in 2017–18 without this reform.
Chris Curry: It is also important to recognise something that Craig Berry was alluding to earlier: that even though public sector employers will have to pay an extra £3.4 billion in contributions, the Treasury will then collect an extra £3.4 billion in contributions. That will probably not make a massive difference to the overall Government finances; it just affects the way that it is distributed and the way that it decides to spend that money and allocate it between Departments. So I think there is flexibility within Government to try to overcome some of the potential difficulties there.
Paul Johnson: It will all be down to negotiation between the Treasury and the Departments. One effect clearly will be that the proportion of public sector remuneration that comes from pensions, in both senses, will rise as a result of this, from a point where it is already much higher than is the case in the private sector.
Graham Evans: Professor Ginn?
Professor Ginn: I have nothing to say on that issue.

Q69 Debbie Abrahams: Earlier on, I mentioned that within these reforms and so on the shift of responsibility from Government to the individual around the financial risk is clear, but also the responsibility for saving. Baroness Hollis mentioned the importance of treating people as adults, but I also think the IFS have made statements, but they are ambiguous in terms of whether these reforms will have that effect. I wondered if you think that the single-tier pension will achieve that. In particular, again thinking about pensioner poverty—this is what this Bill is supposedly trying to address—will it have an effect on helping people on low incomes save?

Baroness Hollis: It is the crucial question, is it not? I do not know whether I should declare an interest as a board member trustee of the Pensions Advisory Service, but without this reform it will be almost impossible, I think, to advise people, particularly women in their 20s and 30s, on whether they should opt out of auto-enrolment. With this, except for some very specific and quite tiny circumstances, you could encourage people, if they are querying this, to remain auto-enrolled and build up their pension. It really does take the risk out of the advice and I hope, therefore, the strategy that makes the best sense for women.

Q70 Debbie Abrahams: Let us hear from the IFS.
Gemma Tetlow: I would slightly disagree with that. When we are talking about incentives to save, we really should be thinking about the longer term picture, because it is people in their 20s and 30s who are going to be saving for retirement. As Paul said, that is where we get into a situation where the pounds per week that people can expect to get from the State Pension for many people would be lower under the single-tier pension than under the current system. On its own, other things being equal, that makes it more likely you are going to come into contact with Council Tax Benefit and Housing Benefit tapers. That effect is going to make it more likely that there is a lower incentive to save.
Baroness Hollis: But about less than 20% of pensioners draw Housing Benefit, and of course Council Tax Benefit is now, in my view very unwisely indeed, being localised into a Council Tax Support Scheme, which will vary from area to area. That of course screws up some of the simplicity of these proposals and adds an element of Russian roulette to the whole advice issue of whether, long term, you should or should not be auto-enrolled. I think it is very unfortunate.
Paul Johnson: Of course, the Council Tax Benefit is not being localised for pensioners, but several things are happening. One is that the income that you will get from your pension will be lower. That by itself increases the incentive to save, because you have less money, so you want to save more. The Savings Credit is going. For a lot of people, that might increase the incentive to save, because there is less in the way of means-tested benefits. But as Gemma said, you are more likely to be brought into the other set of benefits, Housing Benefit and so on, so that might have the reverse effect.
The other thing that is going on is there is more certainty about what you will end up with, and that has an uncertain effect. I think a lot of people do not realise that they are going to get S2P when they are in their 20s and 30s, and they are just basing their assumption on the Basic State Pension and assuming something about means-tested benefits. That may increase incentives to save; it may have the opposite effect.

Q71 Stephen Lloyd: So the IFS's basic premise is that, if people know what their single-tier pension is going to be, they are less likely to save.
Paul Johnson: It depends on their circumstances. If they are not in rented accommodation, for example, and the Savings Credit has gone, it may slightly increase their incentive. If they have Housing Benefit, it may slightly reduce it. Fundamentally, we do not think it has a very big effect. The getting rid of the Savings Credit is probably more important in terms of thinking about this. For many people, though not those who are brought on to the Guarantee Credit, it will increase the savings incentive.

Q72 Sheila Gilmore: In the scheme of things, how important is that in people's thinking? If you are in your 20s and you have a student loan and you want to take a mortgage, these things are probably much more important than this.
Paul Johnson: I agree. This is of limited importance for people on low earnings. The change in the amount of money they are going to get is relatively limited, and I suspect you are right that people in their 20s and 30s do not think ever so hard in this way. Because it is something much clearer—we all get £144 a week—it is more likely to have an effect, though exactly in which direction I am not sure, than the relatively small things that we are talking about.
Stephen Lloyd: I would concur with that, because at 20 or 30 I certainly did not think about pensions; people did not. One of the reasons I did not is I had absolutely no idea of how the whole system worked, because it was unbelievably complicated. I personally believe, having been in business for many, many years, if people know what they are getting, even if they are disappointed at what they know they are going to get, at least they know and they can then start to take informed decisions. It is impossible for normal people to take informed decisions on pensions, because it is just too complicated, in my opinion.

Q73 Debbie Abrahams: Professor Ginn and Chris, would you like to say anything on this?
Chris Curry: The economist in me cannot fault the IFS analysis, as usual, in that, in particular, given the level of the single-tier, the impact is likely to be relatively small one way or another. There are some people who might be more likely to end up on Guarantee Credit—the people who do not qualify for any single-tier pension at all. I think potentially people who might still qualify for the Severe Disability Premium or carer's premium for an extra £58 on top of the £142 a week Guarantee Credit might have an impact. Overall, even though the DWP has estimated only 5% of people will be eligible for the Guarantee Credit, our own estimates, based on the Green Paper proposals—so they are not directly comparable—suggest that there might be a third of pensioners who might still be entitled to any means-tested benefit, including Housing Benefit and Council Tax Benefit.
So there is still going to be means testing in the system, but I think the real impact on levels of saving is not necessarily likely to come through the economic incentives within the system. How people can understand the system, how it can be explained to them and whether people can tell them, "Yes, you should be saving," goes back to what Baroness Hollis

was saying, in that the certainty in the system may or may not make people think they ought to save or ought not to save, but at least it means people can talk to them about it, and so whether they will benefit or not should be clearer. Hopefully, that might have a positive impact.

Q74 Debbie Abrahams: Professor Ginn, would you like to finish?

Professor Ginn: Yes. Certainty, obviously, is valuable. I fully understand the purpose behind the single-tier pension will improve it. The trouble is the details undermine the purpose, in my view, particularly the amount being so close to Pension Credit amount. It needs to be far higher, at least £10 a week above the Pension Credit level, in order for people to be certain that it is worth saving. That makes a proper foundation for employment, letting out a room or saving, or saving outside pensions or whatever.

Secondly, there is uncertainty introduced by the 35 years instead of 30. That means a lot of people will not know whether they are going to make the 35 years or not, because of what we have discussed about the difficulty of getting care credits for informal care for older people, the complexity, and not knowing how many years you are going to be caring for somebody. That is the second point: there is uncertainty in that issue.

I wondered if it is possible to put credits into NEST. NEST is well intentioned and state sponsored, but you still do not get credits in it for caring and that is a major flaw. I wonder if there is some way that could be altered.

I have spoken about indexation, State Pension age and the cohorts. I want to emphasise that I think the gains to National Insurance that will come from increasing contributions and the ending of contracting out is an annual gain to the National Insurance fund, which surely would allow a more generous state single-tier pension.

Also, it seems to me that tax relief at 40% on pension contributions is targeted upwards on the higher paid. Most of that benefit goes to people who are well off and who are going to save anyway, and it seems to me we should end the 40% tax relief. That would bring a lot more money into the Treasury to increase pensions for lower paid people and particularly for carers.

Q75 Chair: I know that Debbie has to go; she has a Prime Minister's question. Can I just ask if there is anything that you came here burning to say and we have not asked you? How did I know that Baroness Hollis might have something?

Baroness Hollis: It is the funding. I am now worried about the funding issue—I was not a month ago—by virtue of the Government's statements that the abolition of S2P and the employers' NICs will help fund the new social care arrangements of £85,000. That really needs to be bottomed out, because what I fear is that the easy alternative to having that money is to have even more quickly an increase or a further delay in the state retirement age. As I say, if that is going to be pegged at 21.4 years, that is extremely unfair to people in a lower social class and all the rest of it—manual workers—because it means that retirement will be a smaller proportion of their total working lives, and those extra years of retirement that they get in terms of living longer, as we know from all the health and King's Fund reports and so on, will be accompanied by poorer health. So there is a double issue there about where the funding is coming from and whether we can ensure that it will not come from raising the state retirement age, with all its deleterious effects.

Chair: Everybody else is happy. Can I say thank you very much for coming along this morning? It has been a very interesting session and there is quite a lot of food for thought for us as a Committee, so thanks very much.

Monday 4 March 2013

Members present:

Dame Anne Begg (Chair)

Sheila Gilmore
Glenda Jackson
Jane Ellison
Graham Evans
Nigel Mills
Anne Marie Morris
Teresa Pearce

Examination of Witnesses

Witnesses: **Otto Thoresen**, Director General, Association of British Insurers, and **Joanne Segars**, Chief Executive, National Association of Pension Funds, gave evidence.

Q76 Chair: Can I welcome you here this afternoon? Thanks very much for coming before us. It does not seem that long since we were in a committee room very similar to this one—it might have been this one—hearing evidence on our inquiry into pensions governance. We have not managed to finish our report on that, but we will do so fairly soon. Can I start with some questions on the ending of contracting out, because that is the meat of what is in the Government's proposed Bill? A number of private pension companies believe that the ending of contracting out will lead to reductions in private sector pension benefits and potentially the full closure of Defined Benefit (DB) schemes. Do you share the concern that this could be the end of DB schemes as we know them?

Joanne Segars: We do not share those concerns. The NAPF have been in discussions with the Department for Work and Pensions over the last several years to make sure there is an understanding of the implications of ending contracting out. If we have a single-tier state pension, there is nothing left to contract out of so clearly it has to go. The issue is: how can we implement the ending of contracting out properly, efficiently and in a way that does not add increased burdens on already hard-pressed scheme sponsors working hard to keep Defined Benefit pension schemes afloat, as we have discussed before at this Committee.

We have been pleased to see a number of issues included in the Bill. The first is the time scale given to employers over which they can implement the ending of contracting out and they can effectively contract back in. We think it is about right that there is that long, five-year period. The second is the ability of employers to use the override. We have some issues around the way in which that might be implemented and could potentially be extended. We think those two things together will help ensure that employers do not face very significant cost increases and they can manage the end of contracting out. If we can allow employers and scheme sponsors to do that, I am hopeful that we will not see the end of Defined Benefit pension schemes. It might happen for other reasons, but I am hopeful that the introduction of the single-tier state pension will not be one of them.

Q77 Chair: Are those all the things by way of mitigation that need to be put in place, or does anything else need to be done as well?

Joanne Segars: There are ways in which the statutory override could be extended. For example, we have some issues around protected persons, the way in which the statutory override could be extended there and the way in which it might apply to multi-employer schemes, for example. Broadly, the package is one that has been supported by my members at the NAPF, but it does rely on our being able to get right the detail of the ending of contracting out, so we will be working very closely with DWP as the secondary legislation is implemented.

Q78 Chair: Do the ABI think it is the end of DB schemes?

Otto Thoresen: No. I would agree with Joanne on most of that. It is more her territory than mine. Unless it is handled well, it may be one of those things that might just tip somebody over a line in terms of a decision, but it is only at the margin. There is a need to have good oversight over any new flexibility brought in to make this easier to deal with so it does not get used for outcomes that have unintended consequences, but I do not see this in itself as something that will trigger a huge further decline in DB.

Q79 Chair: With the ending of contracting out, do you think that gives an urgency to the Minister's Defined Ambition proposals, which still seem a bit sketchy at the moment?

Joanne Segars: There is certainly a case for fleshing out or defining what the Defined Ambition is and bringing together these changes on the ending of contracting out. We have always said there is a good case for running those two things in parallel. If employers are making significant changes to their schemes, as they will have to do to contract back in, it makes good sense to give employers the flexibility, if they want to go down the Defined Ambition route, particularly as concerns core DB as we call it, to be able to do that at the same time. It seems unlikely that employers would want to go through the significant change and cost of contracting back in, and a further significant change and cost in shifting to some kind of DB-based Defined Ambition scheme.

Q80 Chair: Private sector employers are going to be given the right to amend the terms of DB pension schemes to enable them to recoup their additional National Insurance liabilities arising from the ending of contracting out without trustee consent. I understand that has been called the statutory override. Joanne, I understand that your organisation believes it is important for the Government to consult on the detail of the statutory override, because particular contractual arrangements with some companies may mean that some employers will be exempt from the override, or they may incur additional costs in changing contractual arrangements. Can you explain why some employers might be affected in this way? What would you like to see in the wording of the final Bill to take account of your concerns?

Joanne Segars: We are just gathering information from our members on this issue. As you rightly identify, it is one of the most contentious issues for our members. There are a number of ways in which we want further clarification on this and ways in which certain employers could find themselves outside the scope. For example, if you are in a multi-employer scheme you could find yourself unable to use the statutory override because the override is an employer override, not at scheme level; and we have the issue of those employees who previously were in the public sector but are now protected as a result of privatisation. We are looking there in particular for further clarification. We are gathering information from our members at the moment and with the Department we will be working up some proposed wording.

Q81 Chair: Do you suspect there might be some resistance to this among trustees?

Joanne Segars: A very careful balancing act will be needed to strike the right balance between employers and trustees. It is in no one's interests for employers just to ride roughshod over trustees. Trustees are there to serve the best interests of the members and beneficiaries, but we need to make sure that there can be a balance because, at the end of the day, if employers are faced with very significant costs they may say, "We will just close the scheme." It is right that employers and trustees can move forward on the basis of shared understanding, so the earlier we can see some clarification on these issues the better.

Q82 Chair: Is statutory override an issue for you?

Otto Thoresen: Not really. Our business is mainly around the Defined Contribution space, not the Defined Benefit space, so this is one for Joanne, not for me.

Q83 Nigel Mills: Joanne, the estimated start date for this is April 2017. Is that date reasonable for your members? Will that give them time to make all the changes they need to make?

Joanne Segars: We favour 2017 as a start date. That is slightly later than initially was perhaps thought of in any case. Of course, employers have got five years to implement the contracting-back-in phase, and that is the critical timeline for them. For them, the extended period after 2017 to contract back in, working through the valuation cycles and not having to implement a special valuation, is what is critical, so the fact that we have that long phase-in period for contracting back in is what we have been after, so it is manageable in terms of time.

Q84 Nigel Mills: Is the main downside to that special valuation just cost?

Joanne Segars: The cost can be quite significant. If you are a large employer the cost could be £300,000 once you have done the valuation, taken legal advice, communicated any benefit changes to your employees and so on. The costs are not trivial. Going through an actuarial valuation is quite a significant exercise for an employer of any size, so it is partly also about the administrative burdens that fall on employers as well.

Q85 Nigel Mills: Would you not expect most schemes to have wanted to go through that as early as they can? Presumably, until you contract back in, you are just wearing the costs of increased contributions until you sort it all out.

Joanne Segars: Once the legislation is finalised, before 2017 some employers may well want to go through that stage. It is therefore important that we do see clarification around statutory override coming forward as soon as possible so that employers who do want to make the change can do so.

Q86 Nigel Mills: Do you think many employers will generously decide to take the costs of this on the chin and not pass them on to employees, or do you expect most to pass most of the cost straight through?

Joanne Segars: Some employers may well decide to take those costs on the chin, as you have described it, but it will vary from employer to employer. At the moment we are discussing that with our members, but most of them appear to want to use the statutory override.

Q87 Nigel Mills: You have no idea how many of your members might want to be generous in this situation.

Joanne Segars: Not at this stage; we are still gathering information on that.

Q88 Nigel Mills: Can I ask you about the consultation process? Employers will be required to consult on the changes they want to make, but clearly they are allowed to make the changes at the end of the day. Do you think that consultation process will be a very expensive and burdensome process? Is it something that can easily be managed by your members?

Joanne Segars: Our members are used to consulting on a range of changes, and we have seen defined benefit pension schemes make a number of changes to their benefits over the last several years, so employers are used to going through that process. Again, it is not a trivial exercise. I remember that when we changed the benefits in our own scheme at the NAPF, which is a tiny scheme in comparison, the costs can be quite significant. Nonetheless, we think it is right that that statutory consultation process is used.

Q89 Nigel Mills: Presumably, the two extremes in this consultation are, first, "We will pass on an increased contribution level, but you will keep the same benefit", and, second, there is no increased contribution by the employee member, but presumably there is a reduced pension entitlement at the end. Are you expecting that consultation to be offering people a chance to give a view on what they would prefer in that range, or will it just be, "Here's our plan. Do you like it?"

Joanne Segars: It will vary from employer to employer. Many employers will give a central, "This is what we are proposing. Might you have any other ideas or proposals? If so, please provide them." Some might offer a choice. It is a consultation, not a negotiation. Some might offer a choice, but others may just say, "This is what we are proposing. What do you think?"

Q90 Nigel Mills: But you are not saying there is a best practice that consultation should be offering some kind of range. At this stage it is just too early for that.

Joanne Segars: It will vary from employer to employer. Because this is a change driven by statutory legislation and the Government, it is not the usual run of employers making changes because of other more internally-driven factors. This is an external driver for this particular change. Employers might feel that they have less room for manoeuvre.

Q91 Sheila Gilmore: I have a specific question on protected persons who were in previously nationalised industries that were privatised. There is a current consultation on that. I do not know whether you want to comment on that.

Joanne Segars: Again, we are pleased that the Government are consulting on this. It is a particularly sensitive issue for many of our members who do have protected persons among their membership. That does mean that the rules cannot be overridden; they are very often in the primary privatisation legislation. Unless those employers can use the statutory override they will face significant additional costs, because they will not be able to adjust benefits. As we have looked into this issue with our members, we have found that for some employers because of mergers and acquisitions the number of protected persons within their scheme is relatively few. Apart from anything else, lots of the protected persons have retired since privatisation. For them, they could face the quite tricky issue of having to have a two-tier scheme because of this change to primary legislation where they can change the benefits and use the statutory override for non-protected persons, but for the small number of protected persons within their scheme they cannot use it. They will have quite an odd situation unless they can use the statutory override. Because this is a change being driven by the primary legislation and by Government policy we think that the override should apply to protected persons in this case.

Q92 Anne Marie Morris: Joanne, clearly one of the key objectives of the reform, together with auto-enrolment, is to encourage people to save. The NAPF cite survey findings from 2011, which effectively conclude that if individuals knew they would get £140 in state pension they would be prepared to pay £60 a month more into a private pension. How robust is that evidence?

Joanne Segars: It was an omnibus survey of the general population. I suppose the answer is that it is as robust as any omnibus survey of the general population. They were asking people about their intentions. We know well enough from our experience that the proof of the pudding is in the eating, not the survey, but it is clear that if we say to people, "This is the floor of benefits you will get. The foundation you will get from the state is £144 a week in today's money", it is much easier for people to make an assessment about whether or not they can live on that amount; if not, how much more they might need to save. The surveys that we and others have done show quite compellingly that, if there is a simple, single, clear number people will get from the state that they do know about, it is much easier for them to make some assessment about how much more they need to save, or whether they need to save more. It is one of those things we can tell perhaps in 2018 or 2020, but I would be pretty confident that more people will save, and save more, as a result of the single-tier state pension. This is the second wave of surveys we have done asking this particular question and on both people have said they would save more as a result of the single-tier state pension.

Q93 Anne Marie Morris: From what you have said, that works only if people go from understanding what they are getting to understanding what the shortfall then will be, compared with what they are currently living on, and also being able to make a valid assessment as to how much they will need to live at that age when hopefully they will have paid off their mortgage, and so on. To what extent is that dependent upon that extra piece of information being available? I am also conscious that there are individuals who are concerned about the cost of living now, and unless that message and the figures are really clear there is a sense that, "I've got the money now and I may as well spend it, because I'm on the breadline and am still worried about whether or not I can go out for a meal on Saturday night."

Otto Thoresen: This is certainly territory where I can add a little to complement what Joanne has been saying. To answer the first question, I completely agree with her in terms of what she said about simplicity giving a foundation on which you can build. When you look internationally, a large part of the issue about where the savings culture does and does not exists is about the understanding individuals have of what the state will be able to provide, and how that fits in with other sources of income they will have. In preparing for this Committee and trying to remind myself, the complexities of how the current system works were quite a shock to me. I had forgotten just how complicated it is. Therefore, for people not to understand the system and the marginal impact that beginning to make provision themselves is going to have on the ultimate outcome is clearly a massive fog that gets in the way of the decision to do something.

Financial education and capability is another important part of this. We have heard developments around the curriculum and bringing financial education into schools. That is very positive. I think that pension reform, the workplace savings that will be created around that and the focus on pensions are an opportunity also to do education in the work place. The Money Advice Service could be better used to strengthen it, and we might get into communication later. All of that will help, but I agree that it is one thing to give people more certainty and clarity about what the state provision will be, but it is another for them to start to get their head round what it is they are going to need from whatever alternative sources they will be able to get their hands on. Issues around care and related items come into this too.

Joanne Segars: The single-tier state pension is not a reform taking place in a vacuum; it is taking place at the same time as we are introducing auto-enrolment. We believe that the two things together complement each other. The idea of a single-tier state pension and being automatically enrolled, and the power of inertia to get people saving for old age, should be quite compelling in increasing the amount of retirement saving in the country.

Anne Marie Morris: That is helpful.

Q94 Sheila Gilmore: We have heard a lot about the assertion that because the current system is so complicated everything has to be changed. Interestingly, a journalist in my local newspaper has published an article saying she has just woken up to the question of pensions. She said that it was quite easy to get information about the state pension. She found it very difficult to get information from her private pension provider, so are we over-exaggerating this in order to make the case for the single pension? Are there other issues that stop people saving, particularly when they are younger, which may be even more powerful than that?

Joanne Segars: I do not think either of us would suggest that having a single-tier state pension is a silver bullet that will solve all the ills of chronic under-saving for old age, but I would argue that it is one of the factors that will help people save more regularly and potentially save more, because it is very difficult. If you stop 100 people on the street outside this building and ask them how much they will get from their state pension, at the moment most of them would not know. If we can say to people, "Here is the single amount; this is what you will get; this is the deal from the state", it becomes easier for people to know how much more they have got to target. Do we as the private pension sector need to do a better job in communicating with people? Absolutely. That is work we have been putting our heads together on, and we talked about that with the Select Committee earlier this year. We absolutely accept that we need to do more where that is concerned, but a single-tier state pension will make a big difference to very many people.

Otto Thoresen: I completely accept the point about private sector communication having to be improved significantly, too.

Q95 Sheila Gilmore: There are other issues that hold people back. Is there a danger of over-selling this as the answer to pension saving? I doubt whether people in their 20s and 30s have in the front of their mind, "Oh, I don't know how much I will be getting when I am 67, and that is why I won't save now." Surely, it is more about having a student loan to pay off or a mortgage to finance.

Otto Thoresen: I agree. Simplification of the state pension is a necessary condition, but it is clearly not sufficient. As an industry we still have not moved on to the discussion about how you have to adapt the way we offer solutions to engage people in their 20s and 30s and whether they should even be saving into pension vehicles at that age anyway. There is a discussion to be had around that. I know from my own experience talking to family members in that area that they will not come even close to it, but, as you come to your late 30s, 40s and 50s and are trying to firm up on what your 60s and 70s will look like, the clarity this can bring is really important.

Joanne Segars: And for employers too, if they are able to say, "I am offering a pension scheme. It is a really good deal. If you join my pension scheme it is worth it; it will not be means-tested away", which may not be a fear for somebody in their 20s, or even 30s, but certainly for the older ages—whether or not it happens is another matter—there can be the spectre of losing money they have saved.

Q96 Sheila Gilmore: It is not means-tested away.

Joanne Segars: I am using shorthand.

Q97 Sheila Gilmore: You do not lose anything because of that. You may feel that, relative to somebody else, they are getting something without having saved. It is not quite the same.

Joanne Segars: I am using shorthand to describe the situation, but the fear that saving will not pay them is something that can put off a lot of people. If you did have a simple message, neither of us is saying it is the only answer but it is certainly part of the answer and part of the solution.

Q98 Graham Evans: The overall mantra is that it pays to work and to save, which is the point you are making, but in my experience the fear, uncertainty and doubt of people wanting to save for a pension is the point you have just made; they feel, "If I do invest in it, will I get my return or be penalised in other ways?" If you have a DB scheme, like the public sector DB, you know exactly where you are going to come from. Currently, 13% are still open. Do you see that ever changing in terms of the private sector?

Joanne Segars: The 13% comes from the most recent NAPF annual survey showing that only 13% of private sector schemes are open to new members. I do not think we will see a huge upswing in the number of employers starting to open new Defined Benefit pension schemes. It rather goes back to the question about Defined Ambition and how you might be able to introduce, at the same time employers are making changes to their Defined Benefit pension schemes as a result of ending contracting out, a new type of Defined Benefit arrangement based much more on Defined

Ambition and risk sharing, which, if it does not encourage employers to open New Defined Benefit pension schemes, may be enough to dissuade employers, 13% of whom already have Defined Benefit pension schemes, from closing them. It may ensure that the 1.6 million employees who are still in Defined Benefit pension schemes are able to stay in them.

Q99 Anne Marie Morris: To follow up what Sheila said about means-tested benefit and the concern that that erodes the value of private savings, is there anything specific that could be put into the pension legislation that would help here? How are we going to encourage those on the very lowest incomes to be incentivised to save without thinking, "But if I haven't, I'll be sorted out because of a means-tested benefit"?

Joanne Segars: The data show in a quite compelling fashion that the single-tier state pension, plus the introduction of auto-enrolment, does reduce very significantly the number of people who will be on means-tested benefits, in particular housing benefit and council tax benefit, as a result of these changes. But in a sense part of the answer comes from auto-enrolment and the way that will bring people into pension saving, so probably the private sector pension legislation and the auto-enrolment legislation rather than state pension legislation might help there.

Q100 Anne Marie Morris: In effect you are saying that it will be such a small number. I guess the answer is that, provided they know they will not be bailed out by means-testing because if they do all these things they will not be at that level, it is not an issue.

Joanne Segars: Already in the auto-enrolment legislation there is a cut-off below which you are not auto-enrolled. One of the benefits of the single tier is that it is redistributive; it does help those who have been currently disadvantaged by the state pension system, so it will give them a much greater floor of state benefits than might otherwise be the case. We also know that, sadly, many people who are entitled to means-tested benefits simply do not claim them. This will help to overcome both those issues.

Q101 Anne Marie Morris: Otto, do you have anything to add?

Otto Thoresen: As I was listening to Joanne I was struck by the fact that one tends to answer these sorts of questions in terms of the immediate effects—what is going to happen in 2017 and how it affects people—or you switch to the horizon and think, "In 50 years' time when this system has become well established and auto-enrolment has been running for a long time, what will the world feel like?" In reality, the challenges will be around the transition because, as we move through the next 10 years or so, there will not be many people who have significantly benefited from auto-enrolment because it will still be in its very early stages. That is the point where there is probably a bigger proportion of people who might find themselves impacted on the margin than there will be eventually. Eventually, you get to the point where this is far less of an issue, but in the short term we will have to be very careful about how this pans out and how the impact is felt. When one looks at the transition, that is where those who may be badly affected have the spotlight on them, too. We believe very strongly that this is an important and very positive piece of legislation being brought through, but dealing with the consequences for people affected, who are quite close to retirement and are effectively at the margin, is the trick one has to try to pull off to get the better outcome.

Chair: But there will be losers, and Glenda has a question about that.

Q102 Glenda Jackson: That brings me very nicely to my first question, which is essentially that some groups will not benefit from the new system; that is, many people who will reach state pension age before the implementation date, and higher earners who will not be able to build up higher entitlement. Should anything be done to mitigate the impact on either of these groups? Within these groups there are also gender imbalances as we know.

Otto Thoresen: My initial response is that the direction of travel of the legislation and simplification piece is really important for the medium term and long term and is a very positive thing. As you start to look at those affected, there is probably a hierarchy of those where we need to think what we can do for them. The ones I would be most concerned about would be those who are lower earners who probably do not have other means to support them in retirement and have fewer options and choices and, within those, those who might find themselves particularly disadvantaged. There is the obvious example of the gender difference and the coming together of two or three different pieces of legislative change at once to create a perfect storm for people affected. I do not have the answers in terms of what we should be doing, but, if we can get the macro-policy agreed and agree that the direction of travel is right and that broadly there are a number of groups who perhaps require special attention, then seeing what can be done for those to manage the transition is very worthwhile. The trouble is that there are many different specifics one would have to look at almost case by case, not in terms of individuals but groups, but it must be worth looking at whether more can be done for those than currently is planned. I would be arguing that there is something more to be done there.

Q103 Glenda Jackson: As far as you are concerned, there need to be transitional arrangements for the specific groups when they have been defined, in a sense.

Otto Thoresen: Yes. Clearly, there is a cost issue in all of this. What has been aimed at here is a balance that can be struck to allow the thing to proceed to the simpler world we want to get to. Subject to the constraints within which we are operating as a society, more thought should be given to the transitional arrangements.

Joanne Segars: I would agree with that. Some of the transitional arrangements probably do reflect where we are economically, for example the fact that we are now moving to a 35-year minimum contribution period and so on. Ideally, we would have preferred it to be 30 years, but we recognise that 35 years is perhaps the reality of where we are.

Q104 Glenda Jackson: And changes in the age for qualifying for a state pension.
Joanne Segars: Indeed. I would agree with Otto that if we can introduce some transitional arrangements we should, but we need to remember that there are many more gainers than losers from this policy.

Q105 Glenda Jackson: For the potential losers, if there are not transitional arrangements all their lives they have paid in to what they expected to be a state pension that they would receive when they retired at an age that has now changed. There is going to be a certain amount of automatic animosity to these changes, is there not? If we are looking at the long-term benefits of this, surely it behoves us all to examine how those people can be properly taken care of and not feel they have been cheated, which is something I am already getting on a constituency basis.
Joanne Segars: We have heard comments to that effect as well at the NAPF, and I am sure the ABI has too. I suppose the answer is that it reflects the complexity of where we have come from, the simpler state we want to move to and the transitional arrangements in doing that, but also the economic environment that we face. If we can find some transitional arrangements we should do that.

Q106 Glenda Jackson: Because the other part of the policy is to encourage saving, isn't it?
Joanne Segars: Yes.
Glenda Jackson: If it is going to fall at the first hurdle because people believe they have saved and do not see anything out of it, it is holed below the water line. Can we just touch on high earners who may not be able to build up higher contributions? Should there be transitional arrangements for them too?
Joanne Segars: Many of the higher earners have been described as notional losers. If you assume that nothing else will change between now and when they retire, many of them would lose out, but state pensions have been subject to quite significant change over the last five to 10 years, as you have described. I do not think we can assume that things would stay the same, so many of those people have been described as notional losers in that sense.

Q107 Glenda Jackson: So you think they have already taken care of that themselves.
Joanne Segars: Many of them will have private pensions, and over their lifetime 90% will be better off as a result of this change than would otherwise be the case.

Q108 Glenda Jackson: To come on to communications, the ABI have said that effective communication of the changes is absolutely essential; otherwise, the clarity and simplicity of the new system could be undermined. Do you have specific concerns on this? What are the elements on which an effective DWP communication strategy should concentrate?
Otto Thoresen: There are probably two aspects to this. The easier aspect to deal with is, if you like, the endgame in terms of the way we can take advantage of the simplicity we will eventually get to so that people understand the state component of the retirement provision.

Q109 Glenda Jackson: That is the long-term goal.
Otto Thoresen: That is the long-term piece.

Q110 Glenda Jackson: But it is going to be difficult when it is introduced.
Otto Thoresen: Absolutely. In the shorter term it is finding a way to explain what look like quite well thought through approaches to ensuring you are no worse off and whatever you have built up already, the whole foundation concept on which you build, is there: "If this is higher than this, you get that." That approach is still quite difficult for people to stay with. It gets complicated quite quickly as you work through the permutations.
Finding a way to make that understandable to people so they can trust it is probably the hardest thing in the current environment, because for most of the things people believe in, there are questions about whether they can really trust them. It is far broader than financial services; it is everywhere.

Q111 Glenda Jackson: I was about to say it rests on the fact that people have lost their trust.
Otto Thoresen: In this thing basically you have to make it as straightforward as possible for people to take their own journey through this and say, "I can see that if this applies, that applies and that applies, this is something which will deliver what it says it will deliver." In pensions generally, despite what was said earlier, I still think most people find the language impenetrable, even when we try to make it accessible. That will be one of the biggest challenges. For me, it is the transitional piece that is the test, because if we can get the messages right there the longer-term communication should be easier. The fact is that we have got easier components to build with in the longer term and auto-enrolment is coming alongside it, so it is getting through this period.

Q112 Glenda Jackson: But there are already difficulties in the existing system as it has been announced, aren't there? I have already spoken about the gender imbalance. There are 434,000 women, and within that another smaller group, who regard themselves as being unfairly treated here. Correct me if I am wrong, but essentially you think that the bulk of the communication strategy should be concentrating on when it is introduced and the long-term effects, which we all see are beneficial, should be allowed to take their own course.
Otto Thoresen: It will be relatively easier and a lot more effective if we have managed to get through this period of transition. In the answers we both gave to the previous question there is the issue of fairness. Everybody accepts that decisions have to be made and balances struck, but it is about sensing that we have gone through a process that made those knowingly and, if there was something seen to be unfair, it was

given consideration and dealt with. To me, that is as much about communication as the DWP's communication to citizens.

Q113 Glenda Jackson: But should this communication process be driven and carried out exclusively by the DWP, or does the industry have some responsibility in this area?

Joanne Segars: It is a collective exercise in which we need to be engaged. Employers and pension providers will have a role to play. Going back to the earlier discussion about the ending of contracting out and the way employers will change their scheme benefits, we need to make sure that Government communication about the changes to the state pension is dovetailed with those changes that come into force in employer schemes as a result of schemes contracting back in, and any benefit changes resulting from that. As Otto said, there has to be a very carefully managed communications exercise to make sure we can get over these transitional issues, because that is the most complex. Ultimately, we are going to a much simpler system but to get there is incredibly complex, as we have been discussing, so to explain some of those complexities in a way that is clear and simple involves all of us. It would be a good thing for the Government to sit down at an early stage with representatives from the ABI, the insurance industry, the occupational pension sector, employer groups, trade unions and consumer groups to see how collectively they can co-ordinate the communications exercise. Part of the misinformation we have at the moment—clearly, there are people who will be losers—is because that communication exercise has not been as well co-ordinated as perhaps it could have been. The earlier we can sort out the communication exercise the better.

Q114 Glenda Jackson: But, surely, the clarity of the message will be dependent on the clarity of the legislation. At the moment, as we know, a great deal of the legislation is going to be left to regulation, and heaven only knows what will be in there. Should the Government, quite deliberately, concentrate on how the message is going to be delivered to those who will then spread it out? You mentioned employers, the industry and so on, but, surely, it is absolutely vital that Government know what the possible hurdles will be before they start telling you all how to spread the message.

Joanne Segars: That is certainly true, but the earlier we can sit down to think about how collectively we will produce this message and can use different parts of the industry—employers, trade unions and consumer sectors—to disseminate information, the better. If we wait until the ink is dry on the secondary legislation, we will face a big discussion. We simply will not have the time. That is why I would prefer to start that process earlier rather than later.

Otto Thoresen: You are right. There are so many pieces one is trying to balance to get the optimum outcome. You may think that adding in the communicability of it is the last thing we need, but it has to be in there. How will the narrative develop around this? Will it be seen to be fair and worth being part of? That is an important piece. As Joanne says, if we can get involved early enough, we can bring the shared knowledge across the industry to what is already there in the DWP. My sense is that DWP absolutely understand that. On this and other areas we have had discussions over the years and recently about how we can make this work better and what the industry has to add. That has always been part of that.

Glenda Jackson: If you do not mind my saying so, they have been a bit slow off the mark in the improvements area. It is one thing knowing that a message has to be delivered; it is quite another thing to decide what that message is and how it is going to be delivered. I go back to my central point. There seem to be two messages here: one is when it comes in and the big bang, although it is not a big bang because there will still be people outside it; and the other is the long-term policy, which can probably take care of itself. The initial introduction is going to be absolutely central to all of us taking this on board as the only way we can go, which in truth it is.

Q115 Chair: To go back to the statutory override, when we were asking questions about that we were looking at it very much from the employer's perspective. The statutory override will be there to protect the employer from additional cost. What or who will protect individual employees or members from facing extra costs if the employer just decides to pass it on through the statutory override against the best interests of the employees or indeed the wishes of the trustees?

Joanne Segars: Part of the purpose of the consultation process we talked about earlier is to ensure that a fair balance is struck. That is why employers will be keen to talk to trustees as that process unfolds and we see further detail, and we are pleased that the Government are consulting on the issue.

Q116 Chair: The trustees are there specifically to protect the interests of the members, and it is the trustees who are being overridden to protect the employer. One can understand the logic of that, but if the employer asks for something that goes too far the other way and is to the detriment of individual members, who can step in at that stage? It cannot be the trustees; they have just been overridden. Will there be an external body they can appeal to? Whom can they appeal to?

Joanne Segars: I suppose one thing we will need to see is what will be the role of the Pensions Regulator in this area. DWP have shown that about 90% of people will benefit over the period of their retirement as a result of these changes. Even taking into account any increased National Insurance contributions, 90% of people will benefit through their retirement as a result of these changes. Of course, employers are able to offset only their costs; they cannot reduce benefits any further than would offset their own costs.

Q117 Chair: In its written evidence the ABI expressed concerns about the way in which the Department plans to calculate the rebate-derived amount. Trying to work out exactly how all this works has been keeping me up every night, but the rebate-derived amount is how much people will inherit, or how much will be set for their single-tier pension. You have concerns about how that will be calculated. Can you explain what the specific concerns are, and what should be in the Bill to address that?

Otto Thoresen: The basic point is very simple. This is where somebody has contracted out from the additional state pension and their rebate has gone into their personal pension effectively to create a replacement at retirement. The point we are making is that when those rebates were set, assumptions were made about the future economic outlook, what kind of investment returns would be reasonable to expect and what annuity rates might be like at retirement. That was how the rebate was set. It was effectively based on a set of assumptions. The expectation would be that you would get the equivalent in terms of pension to the pension you were effectively giving up. Given the way the last 10 to 15 years have turned out, and annuity rates have turned out, the assumptions have not proven to be anything like the reality. Our point is that, when the detailed legislation is being put together, one should focus on the rebate rather than the additional state pension that has been given up. The one thing that is factually there is the amount of money these people have been given to invest in their personal pension to replace whatever they have given up. We want to look at that as the basis for calculating what should go into the assessment.

Q118 Chair: Does there need to be anything on the face of the Bill for that, or will it be done through regulation?

Otto Thoresen: A huge amount of this is likely to end up in the detail, but we were just making the point that we think there is an issue of fairness for the people who made that decision to try to make sure they get as fair an outcome as possible. If that is the lens through which you look at it, it is more likely to be a fair outcome for them.

Q119 Chair: Is there anything else that you think should be on the face of the Bill that is not? Obviously, a huge amount will go into regulations, but is there anything you have spotted that you think would be far better in primary legislation, or indeed the opposite; is there something in the Bill that you think should be in regulations instead?

Joanne Segars: Our view is that the balance is about right between what is in the primary and what will go into secondary. Perhaps one of the lessons we have learned from the auto-enrolment experience is that there is an awful lot in primary, and now as schemes go through the process of auto-enrolment we are discovering some wrinkles which clearly require primary legislation to change them, so the more that can be in secondary that we can perhaps change as we go through and learn from experience the better.

Q120 Nigel Mills: I want to go back to the rebate-derived amount calculations. Mr Thoresen, I understood you to be suggesting that people who contracted out might end up worse off than if they had not contracted out because of private pension returns being lower than the Second Pension. Presumably, that is a greater issue if you have contracted out into a Defined Contribution scheme than if you are in a Defined Benefit scheme, where you have probably done far better. Wouldn't your idea of looking at the amount of rebate rather than pension due really favour people in a Defined Benefit scheme quite a lot over Defined Contribution in that situation?

Otto Thoresen: The view we were taking was that there is the potential here for people effectively to lose out twice if they did go into a Defined Contribution scheme and their experience was not what the rebate had assumed would happen, and we did not want them to be more disadvantaged than they needed to be. You are right that, if you are contracted out into a DB scheme, you will be in a different situation. It is for those who contracted out into defined contribution schemes that we are raising the concern. Our point is that it is one worth looking at to try to make sure that, however the final legislation is drawn, that point is taken into account.

Q121 Nigel Mills: When in your evidence you said you thought that the rebates were too low, that is aimed mainly at people in a Defined Contribution scheme, not those in a Defined Benefit scheme. Do you think the rebates are still too low in that situation, or are they much better?

Otto Thoresen: Too low in the Defined Benefit situation?

Nigel Mills: Yes.

Otto Thoresen: I do not know.

Joanne Segars: The value of the rebates has fallen so they do not entirely offset the pension that has been given up. We have seen that, actuarially, rebates have not been set neutrally as between the pension that has been given up through S2P, as it now is, versus the contracted-out rebates that employers and individuals get.

Q122 Chair: This is pre-legislative scrutiny. Is there anything about which we have not asked a question that you think should be on the Bill and has been missed out in terms of making this work?

Joanne Segars: No. The key, as you have said, is what appears in secondary legislation. I am sure that will keep us occupied for many months to come.

Chair: My concern is that secondary legislation is not subject to pre-legislative scrutiny. My colleagues have asked all their questions. Thank you very much for coming along this afternoon.

Examination of Witnesses

Witnesses: **Neil Carberry**, Director for Employment and Skills, Confederation of British Industry, and **Malcolm Small**, Senior Adviser, Pension Policy, Institute of Directors, gave evidence.

Q123 Chair: Thank you very much for coming along this afternoon. Can I get you to do what I forgot to ask the previous set of witnesses to do, which is to introduce yourselves for the record?
Neil Carberry: I am Neil Carberry, Director of Employment and Skills at the CBI.
Malcolm Small: I am Malcolm Small, Senior Adviser on Pensions Policy at the Institute of Directors, and Director of Policy at the Tax Incentivised Savings Association.
Chair: I know that you heard some of the previous session, so you might recognise some of the questions we are about to ask. We will do them in a different order, beginning with communications.

Q124 Jane Ellison: We have had quite a few witness sessions so far. You can imagine that the emphasis on communication has been great. At this stage we are particularly interested in anything around communication that you think might need to be on the face of the Bill, but also your general view, especially as members of the Bill team are here, about how you think the changes can be effectively communicated and what role you think your organisations have, but also specifically whether you think there should be anything on the face of the Bill about a statutory requirement to communicate.
Malcolm Small: We have had recent experience of communication with employers through the automatic enrolment policy. We have seen that the Department for Work and Pensions communication exercise around the new employer duties has recently raised awareness quite substantially among employer target groups. We do think effective communication is very important and does work when we get it all together. As earlier commentators have said, there is a role for all stakeholders in this, which would include organisations such as CBI and IoD. I would be less sure about whether it needs to be in primary legislation. The legislation we have before us now is very much enabling, and if we wanted to put anything in there it would be about empowering the Department or others to communicate effectively.
Neil Carberry: There is already a requirement for consultation in anything that forms a substantive change to workplace pension provision, and that is echoed in the proposals brought forward by the Department where they impact on the workplace specifically. I do not think there needs to be a lot more than that in primary legislation. I speak as a veteran of the 2008 Act. The experience then was that we put rather too much into primary legislation which reduced some of the flexibility the Department had at later points to make decisions which were not foreseeable at the time of legislation, but, as we moved towards the roll-out of auto-enrolment, in practice it became common sense. There is a case with these major programmes to allow some flexibility for the Department in deciding how it takes forward the communication challenge, albeit clearly such a substantive change as this, which changes the thing that underpins the whole pension system, will require a concerted communications campaign from Government but also organisations like our own.

Q125 Jane Ellison: That was to be my question. You see employers as having a very significant role in disseminating information.
Neil Carberry: To the extent these changes impact on the provision of workplace schemes, yes. We were very clear in our written evidence and other statements we have made that one of the reasons we think the changes in the Bill have merit is that they make employers’ communication with employees about pensions saving simpler and more effective, because it is easier for employees to understand what they will be due from the state. Despite the well-intentioned efforts of DWP under several Governments, the current system makes it quite difficult for employees to understand their state pension rights.

Q126 Anne Marie Morris: One of the ideas behind this was to try to encourage individuals to save, as we all live longer. Do you think that the new single-tier pension, combined with auto-enrolment, will deliver that; and, if so, why?
Malcolm Small: I think the jury is still out on this. We are at the very early stages of automatic enrolment, but the IoD, as an organisation, has always argued for a flat rate basic state pension that gives a clear platform to save. We were also concerned that the previous system of means-tested retirement income benefits would provide an effective disincentive for many modest earners to save, because they would be saving pound for pound to deny themselves the means-tested benefits they would otherwise have got in retirement had they done nothing. I think that argument has been debated, and we have a clear answer on that. We very much welcome the move to a flat-rate basic state pension as providing a clear platform to save. I do not think we can say, at least not yet, that that translates into lots of people staying automatically enrolled and saving adequately for retirement in and of itself, but it is certainly very welcome from the point of view of providing the statement, “This is what you will get from Government, and if you want more than that at retirement, go save.”
Neil Carberry: As Malcolm says, this is a very long game. We are just starting to see the initial numbers out of the larger companies who have been auto–enrolling since October. They are on the good end of what we might have expected in terms of people not opting out. That is clearly very positive. However, the key driver for people to opt out will be a sense that it is not in their financial interest, and the single biggest factor in people making that decision will be the issue of means-tested benefit. Therefore, some form of resolution of that has to be to the benefit of long-term saving and the Bill offers quite a coherent solution.

Q127 Anne Marie Morris: Are you satisfied with what is in the Bill in terms of the means-tested piece, or do you think there is a nirvana to be reached where we do not have means-tested benefits and the pension is at such a level that it would not be necessary anyway?
Malcolm Small: In some of the supporting papers on this I was interested to see that we were expecting this not merely to be cost neutral, which everybody always accepted would be the case, but, depending on local factors that you have discussed earlier, there would appear to be potentially immediate and quite substantial long–term savings to the Treasury in this. Within the IoD we have probably always argued for a universal flat rate basic state pension and we are going to have quite a cliff edge effect as we get to implementation, where somebody retiring at the state pension age of 66, or whatever, on 31 March is under a completely different regime from people who retire on 1 April. This could cause some intergenerational tensions. There are also issues around people who have retired overseas. We know that those already with the basic state pension today will see this as an increasing injustice. As we emerge from the discussion process other issues will come out that we need to resolve from the point of view of fairness. There is an issue starting to emerge about women born between 1952 and 1953, so the process adopted here is good. We have enabling primary legislation which then buys us, the stakeholders, time to work through with DWP to ensure the secondary is as robust and fair as it possibly can be.
Neil Carberry: I would agree with that. Any change to an age-related benefit like this will always give rise to some cliff edges. The critical thing is to spend the time working through the plans to make sure they are minimised as far as possible. We should not fall into the trap of making the best the enemy of the good here. This is a pretty good plan and it deals with most of the issues, and by comparison with where we are today it is quite a substantial step forward.

Q128 Anne Marie Morris: I am pleased to hear that. Is there any single thing that you think could be added to the Bill that would encourage saving? Is there any particular change?
Malcolm Small: We need to look at the encouragement of savings throughout all life stages and for all needs. We have tended to focus on savings policy as relating to pensions. There is a wider policy consideration there. At the end of the day, savings and pension policy is a function of employment policy, because how much money people have in their pockets is a driver of what they feel they can afford to put aside for pensions, or any other savings.

Q129 Anne Marie Morris: That is helpful.
Neil Carberry: I would agree with that.

Q130 Anne Marie Morris: It looks like the self-employed at the end of the day will be beneficiaries of this particular reform. Do you think the self-employed should expect their NICs to increase in return for the state pension gain?
Malcolm Small: The Institute of Directors has a lot of self-employed members. Clearly, nobody wants to see their National Insurance go up in relation to their day-to-day existence. That having been said, even the most reluctant of our self-employed members would recognise that, given the improvements we are going to get going forward, it is possibly only fair that everybody should be asked to do their little extra bit. But I note there are also proposals around for easements for the self-employed so they will be able to buy extra pension in 2017 at the rates applying today. We think that is sensible, and we would very much welcome that as an easement for the self-employed.
Neil Carberry: We have corporate rather than self-employed members.
Chair: Then you can tell us the right answer.
Neil Carberry: Malcolm has hit the nail on the head, which is the importance of having a deal that looks fair for self-employed people in particular, because bringing more self-employed people into the system initially is preferable to bringing them in via a means-tested route if they then fall into hardship in retirement, so it is a shock. In some ways there is a long-term gain to both Government and the self-employed person.

Q131 Anne Marie Morris: Do you think there should be something specific in the Bill that clarifies the position for the self-employed? At the moment we can understand it reading what is there, but it is not underscored. Do you think it should be, or is that unhelpful?
Malcolm Small: It is one of those “have regard to” issues. In framing regulations it should be suggested that Ministers and others should have regard to the best interests of core stakeholders, including the self-employed. It may be appropriate to mention the self-employed there. While we are on the self-employed, although quite a number of our members are self-employed, our self-employed members today are Neil’s future corporate members.
Anne Marie Morris: That is helpful.
Chair: Some things that will affect all your members are the ending of contracting out and statutory override.

Q132 Nigel Mills: Mr Carberry, a few minutes ago you seemed to give a broad welcome for this change, but in your written evidence there is a bit of a caveat, especially as regards the contracting out measures, for employers not to be too adversely affected. Can you expand on that and tell us whether you feel that the statutory override addresses your concerns?
Neil Carberry: The caveat we set out is that this is a social policy change. We are supportive of the direction of travel and the abolition of contracting out, a humane demise of which is broadly something my members would welcome, not least because the value of the rebate has been whittled away over a number of years so it is not very reminiscent of the actual value of the benefit on the other side of the contract. But contracting out is that; it is a contract, and therefore in the change we ought to be able to abolish both sides of the contract; that is, as NI for employers

and members of Defined Benefit schemes go up that cost should be offset by the ability to reduce pension accrual by the value of the previous pension provided in lieu of S2P. That should be done in a very controlled way. I like the way the Bill structures this idea. The one thing that is not yet there, and we would like to be there, is that it should be applicable to all contracted-out members of Defined Benefit schemes in the private sector, so we would like to see it extended to those affected by protected persons legislation as well.

Q133 Nigel Mills: We will come back to that in a second. That takes away the pain for the employer to a certain extent, but the individual gets to carry the increased NI, and presumably a reduced private pension, in the hope that the increased single state pension will make up for that. Is that how you understand the humane killing of contracting out?
Neil Carberry: There are two points. One is that, if you do not do this, the little number in the bottom right-hand corner of payslips, which people care quite a lot about, goes down, because their contributions stay at the rate they were and their NI goes up. I am not sure a policy that reduces take-home pay in the current economic environment is necessarily a good idea. The change does alter where employees' capital is; they end up receiving a little more in the bottom right-hand corner of the payslip and paying a little less into the pension, and ultimately receiving a little less in the pension, which in most cases is made up by the new flat rate pension. For the employer it should be cost-neutral as well, i.e. the employer pays more employer NI, in return for which it pays a little less in contributions to the scheme. I say "a little less". For some of our larger members we are talking here about £60 million per year, so it is quite a significant amount of money.

Q134 Nigel Mills: When we get round to consultations by employers on how they will deal with this change, what you are expecting is that as the way forward your members will choose reduced pension benefit rather than increased contribution levels?
Neil Carberry: People will make a decision based on their own circumstances, but certainly the discussions I have had suggest that in Defined Benefit schemes people will look to reduce pension benefit to offset the loss of GNP.

Q135 Nigel Mills: Presumably, you are happy that your members will not try to get any extra gain out of this by reducing benefits by more than the NI cost increases.
Neil Carberry: The Bill should make clear the right way to deal with that. Current plans are very clear about actuarial sign-off, and clearly the Regulator needs to be able to enforce against gaming of the system. The other point we have made from the beginning is that any power like this has to be strictly time-limited to the period of introduction of the new state pension.

Q136 Nigel Mills: Presumably, you do not think that either the cost of this or the burdens of the consultation and changes in the valuations will finish off Defined Benefit schemes in the private sector for good.
Neil Carberry: It is debatable whether they have been finished off for good already, but those who continue to soldier on in Defined Benefit in the private sector tend to be either insistent investors who have a model that is very committed to Defined Benefit or those who are committed to Defined Benefit by statute, for instance some of the energy companies. The costs of this alone will not finish off schemes.
Malcolm Small: I agree with that. An awful lot of change is going on across the piece in pensions at the moment, with automatic enrolment adding significant cost to employers' employment bills, so anything which adds a further layer of cost will be unwelcome. That having been said, the sense I get from our membership who run DB schemes is that roughly two thirds say they will carry the cost rather than alter the benefits. One might be pleasantly surprised at the outturn.

Q137 Nigel Mills: You are thinking that they will take the impact of contracting out on the chin.
Malcolm Small: They might. What they are saying to us on automatic enrolment is quite optimistic. They will just carry it from profit. Our membership base is more SME[1], typically those with 60 to 250 employees, and entrepreneurs. They are saying in recent research on auto-enrolment, "We're just going to take this on the chin."

Q138 Nigel Mills: The sense from Mr Carberry was that he thought most of his members would not be very keen to take it on the chin.
Neil Carberry: We are talking here about quite a substantial difference in scale.
Malcolm Small: I can fully understand Neil's members having a different view.

Q139 Sheila Gilmore: Would it be relatively easy either for your organisations or the DWP, or both, to produce examples that would show people in much more concrete terms what all that balancing means? You were talking about increased National Insurance for the employee and a higher state pension balanced by potential higher pension contributions, or lower pension contributions and reduced pensions. That is all very abstract. Would it be very difficult to give people examples of how that would work?
Neil Carberry: No. We could let the Committee have a note with some worked examples, if that would be helpful.

Q140 Sheila Gilmore: It would be helpful to see in that concrete form how they might in practical terms balance each other out rather than that they should balance each other out.
Neil Carberry: I can let the Committee have a note after this session.
Malcolm Small: If there is to be some kind of immediate Exchequer dividend, we ought to focus on

[1] Small and medium enterprises

helping employers and employees meet this change in the National Insurance situation, perhaps as well as women in the 1952–1953 cohort and overseas pensioners. If there are releases of money in the short to medium term we should ensure they are deployed to the benefit and help of employers and employees.

Q141 Chair: How onerous do you think will be the requirement to consult employees on any changes to the scheme?
Neil Carberry: I think that employers running Defined Benefit schemes in particular are pretty used to consulting scheme members on changes. As Malcolm was saying earlier, there have been a significant number of changes over the years, both legislatively and employer-inspired. Most of the structures are in place in larger companies to do this, so I do not anticipate it being a significant burden.
Chair: We turn to protected persons.

Q142 Sheila Gilmore: We touched on this before. This is the specific group of people who were in formerly nationalised industries that became privatised. They have a particular protection that is being consulted on. What is your view on that?
Neil Carberry: Our very clear view is that those employees should not be treated differently from other employees in defined benefit schemes. It is quite easy to write off this group by saying that it is 20 years since privatisation so there cannot be many of them. In some of the larger schemes we are still talking about tens of thousands of people.

Q143 Sheila Gilmore: Who are still not retired.
Neil Carberry: Yes. The nature of some of these schemes is that people tend to join them as apprentices fairly early, at 16 or 18, and therefore many workers are now only about 50, 51 or 52 but have protected person status. It is right to ask the question 20 years on whether that protection, which is not going to be afforded to other members of Defined Benefit schemes, should also be afforded to this group. For the same reason as I set out in my answer previously, our view is that we should extend the override to be available to these schemes as well.

Q144 Sheila Gilmore: Do you have any estimate of the likely costs involved if that were not done or have you not got to that?
Neil Carberry: For the largest employers, it is up to about £60 million per annum.
Malcolm Small: This also highlights the continuing gulf between public sector pensions and private sector DB. The treatment being proposed here is different for public sector DBs from that proposed for private sector DBs. Every time you build in one of these differences of treatment, life becomes more difficult. You are getting a diversity of treatment, and it continues to emphasise the way DB is just going out of the private sector, whereas it is maintained in the public sector.

Q145 Sheila Gilmore: Some of the commentary about private sector employees generally suggests it could cost them as much as 10% of their salary to make up the shortfall in their future pensions as a result of these reforms. There has been some discussion here that there may be some dividends to the public, and Malcolm touched on that. I think you were saying that maybe some of that should be spent on helping employees. Do you want to develop that a bit more?
Malcolm Small: I do not think the amount is absolutely clear yet, but our understanding in dealing with the Department for Work and Pensions and HM Treasury is that this exercise was always intended to be cost-neutral, at least in the short term, rather than produce a dividend. I am not clear in my mind today where that dividend comes from, or how much it is, but we need to work with Departments to say quietly, "Okay, how much of a dividend is there, if there is a dividend at all, in the short, medium and long game?" We can all see that in the long game there is a clear Treasury dividend with the cost of state pensions coming down by about 8.6% to 8.1% over time. We completely understand and support that. We have to keep state pensions affordable, but if there are to be short-term dividends we need to be thinking about how we better support both employers and employees through the transition process. I am not quite sure about 10% as a figure. That does not empirically feel right. I think it will be considerably lower than that. The message has to be that we all need to be putting more into our pensions than we have been historically and move up towards 15% of total salary contributions over time, much as they have now in Australia.

Q146 Graham Evans: Private sector pensions are about there?
Malcolm Small: Yes. The target in my mind is that you need 15% per annum of total basic pay going into it.
Graham Evans: But very few in the public sector pay anywhere near that amount.
Teresa Pearce: The police do.
Malcolm Small: Defined Benefit pensions typically require a funding rate in the private sector of anywhere between 20% and 30%, so I would imagine that is very much the case in the public sector. Some of the figures I have seen from GAD[2] and others suggest that the assumptions about the amount of salary you need to put from the public sector into unfunded public sector pension promises are, from the outside, artificially low.

Q147 Sheila Gilmore: When you refer to 15%, is that purely from the employee?
Malcolm Small: No; it is the aggregated contribution. The conventional wisdom is that you need to put that in year in year out all the time you are employed into a DC scheme to stand a fighting chance of getting a 50% replacement rate in retirement. That is a fighting chance, not a certainty.

Q148 Teresa Pearce: You have touched on public sector pensions. With the changes private sector employers can pass the costs on to their employees,

[2] Government Actuary Department

but the public sector employer cannot do that. Do you think that is fair?
Malcolm Small: There has to be a debate around that. We have a difference in treatment here which has the potential to be invidious. We have to sit down and scratch our heads a bit to figure out where the fairness angle in this is, but essentially, if you are a private sector employee in a DB scheme going forward, you might well have your benefits cut, whereas ultimately in the public sector you will not have your benefits cut. You will be paying a bit more NI, but you will not face the prospect of an absolute cut in your funding.

Q149 Teresa Pearce: The additional cost to the public sector employer is quite large.
Malcolm Small: And has to be carried by the taxpayer.

Q150 Teresa Pearce: At the same time, you are saying that, if there are savings, the state should be able to help employers in the additional costs, but, surely, if the state has this additional cost already there will not be savings to the state overall. It is circular.
Malcolm Small: It is, potentially, circular and we need to break into the circle and understand more about our options. All we can do at this stage—I am sure Neil would say the same—is identify it as an area of concern and we need to do more work on it.

Q151 Teresa Pearce: A lot of the conversation we have had today has been about employers' and employees' National Insurance contributions. Given that the direction of travel for this and other governments has been to amalgamate tax and National Insurance into one payment, do you think that will complicate this, or make it more difficult to understand?
Neil Carberry: The abolition of contracting out would be a necessity in doing that ultimately. You referred to employers passing costs on to employees. What is actually happening here is that the Government are raising taxes on both employees and employers. Our proposal in terms of override merely allows both sides of that relationship to draw the additional tax money that they are being charged by the Treasury out of their pension saving. Getting rid of contracting out removes one of the few remaining bits of National Insurance where there is a variable rate for employees, so arguably this change moves forward the agenda of amalgamation and makes it easier.

Q152 Teresa Pearce: The Office of Tax Simplification is looking at amalgamating PAYE and NI into just one payment out of salary. Given that part of the coalition's push is to raise the threshold at which you pay tax and yet is looking to abolish National Insurance, surely it is going to be quite complicated to achieve that in working out what goes into your pension and what does not, and also trying to look at whether somebody has sufficient years' contributions. Do you think anyone has looked at the way that overlaps?
Neil Carberry: The way I read this Bill is that it is being brought forward independent of that debate. That debate has a long way to run yet.

Q153 Teresa Pearce: It will make a major difference. It is very popular to raise the threshold of tax, but for National Insurance it is a completely different threshold; it is very complicated. If we are looking at simplification, maybe we need to consider how the Bill will work with that, if it is to happen going forward.
Malcolm Small: We think the UK tax and pension system, whether private or public in this case, is so arcanely complex that it is difficult for users to grapple with. We would very much welcome any kind of simplification we can get in the UK tax and pension system. We think there is room for radical reform. I know we have to go in small steps, but today the system is so complex that anything we can do to help people understand what it is they have to pay in a single place, and what they will receive from the state by way of a pension in a single place, is welcome. These are things for all stakeholders. There has been a fair degree of consensus built around the idea of a basic state pension. It is a good debate to have, and we welcome the opportunity to give evidence here. We are now into implementation, and it is really important to get that right. We are delighted at the way the Department for Work and Pensions and others are working with industry to understand and work through the issues.

Q154 Chair: You may have spotted that Teresa also serves on the Treasury Select Committee. Malcolm, you just referred to getting it right. Do you think this piece of legislation will establish a sensible and understandable state pension system and the pension system for the future?
Malcolm Small: It will help. We will still have a legacy system of pensions and Savings Credit rolling into the future to a point where it is used by a tiny fraction of people but will still exist. Maintaining that architecture will involve cost. In an ideal world—maybe it is not affordable—we would have liked to have moved to something based on a residence test of 15 years or whatever that is available to all so everybody is on the same platform and we do not have the costs of maintaining the old architecture. Maybe that is not achievable; maybe it is if there is a short-term Exchequer dividend, or we can work in such ways to provide one, but that is a debate for down the track. In terms of looking at this Bill today, is it providing the right architecture? I think it is. Is it enabling? I think it is. Are there issues that we need to address within it? We have heard some of those this afternoon. It is not a perfect place to be, but probably in making a change of this kind we have to accept that somewhere along the track some people will of necessity lose out. Our trick in working with the Department is to minimise that number of people and make it as fair as we can in implementation.

Q155 Chair: Neil, does this create a better pension system overall?
Neil Carberry: Yes, it does. It creates a simpler pension system where people have greater clarity earlier in their working lives, and therefore a greater understanding of the necessity to save and at what stage they need to save. We are dealing with a group

of employees who are now facing fundamentally different challenges from those of a generation ago. If we think about someone coming into the workplace in the next couple of years, with university fees, higher housing deposits, probably having children later because of that and then pension saving, some clarity about what the state will provide will help people make decisions that work for them. On the business side, a lot of my members are thinking about what a more flexible workplace savings offer will be to cover retirement saving and help people save, for instance for housing deposits.

Q156 Chair: Is there anything that needs to be clarified or put on the face of the Bill that is not already there?

Malcolm Small: There is not much to add. My reading of the Bill is that it is enabling; it is subject to some tinkering at the edges. We talked about some of the communication issues earlier. There may be arguments around that, but, reading it as a Bill right now, I see it as facilitating and enabling, and the meat of the discussion is in the secondary legislation.

Neil Carberry: I would agree.

Chair: Thank you very much for coming along this afternoon, and this will go forward in writing a report.

Monday 11 March 2013

Members present:

Dame Anne Begg (Chair)

Debbie Abrahams
Jane Ellison
Graham Evans
Sheila Gilmore
Glenda Jackson
Stephen Lloyd
Nigel Mills
Anne Marie Morris

Examination of Witness

Witness: **Steve Webb MP**, Minister for Pensions, gave evidence.

Q157 Chair: Welcome to you, Minister. On your own—no official?
Steve Webb: They are all behind me.

Q158 Chair: Welcome anyway. This is obviously the last oral evidence session that we will be taking in our pre-legislative scrutiny of the draft Bill on the proposed changes to the State Pension. We have had a very interesting but very short timescale in which to look at the whole issue. I suppose I will just get started with some questions.
We have heard that, once the transition is finished, the new system will be much simpler than the current system and offer better pensions to those not presently accruing a State Second Pension, such as the self-employed; however, it will give employees and carers just £4.11 pension per qualifying year, compared with a minimum of £5.29 per qualifying year if the present system were maintained—in other words, less. Is that a fair assessment of the overall impacts of the Single-tier Pension?
Steve Webb: I welcome the description of it being much simpler, and obviously what would be lovely would be to start with a blank sheet of paper and say, "Right, from tomorrow everyone gets a flat figure and we all get on with our lives." One of the challenges for us in trying to keep it simple is trying to be fair to history. Obviously people reach 2017 with a whole diverse range of history, and we have to try to be fair to what has happened in the past, but not keep the past dribbling on into the future for another half a century. Once it is up and running, the proposition will be, yes, much simpler. Crucially, and perhaps missing from the characterisation you just gave there, it will be a perfect complement to the automatic-enrolment policy. We see the two as twin policies. If we are expecting people in work on modest wages to put money by, we have absolutely got to sort out the State Pension side of things. It is important to keep those two things together.
On your specific point about carers and so on, one of the important points is that the State Second Pension only came in, as you know, in 2002, so to have a lifetime's worth of State Second Pension credits, from the age of, say, 18 to the age of, say, 68—for want of an argument—you would have to be in the State Second Pension for 50 years. Nobody would get a full lifetime of State Second Pension credits until 2052. Whilst it is true that we are accruing flat-rate years at a lower rate than the combined basic and State Second Pension, because it would take decades for all the people who could have built up credits to get them into the system, that is not comparing like with like.
To give one specific example, women in their 50s now—say their early to mid-50s—who spent time at home with children will generally have missed out on State Second Pension credits altogether. We are effectively retrospectively giving them credits for those years when they were at home with the children. They were only getting basic State Pension, and now we are giving them basic and Second Pension credits, effectively. It is inevitably more complex than you describe, so there are some carers who will actually get a better deal through this, for many decades to come.

Q159 Chair: It is also true to say that there will be people for whom the Single-tier Pension will be a worse deal than the one they have at present.
Steve Webb: What they have built up so far is honoured in full.
Chair: I am talking about if they were starting today, as opposed to in both systems.
Steve Webb: When this thing is fully mature, the cost of the whole thing will be less than it would have been. Of course, what we are doing is arresting the rate of growth; we are not cutting. We are seeing pension spending as a share of national income rising still, under these proposals, just not as fast as it would have been. As you say, some people will get less than they would have done, yes.

Q160 Debbie Abrahams: You have just mentioned that this is meant to complement the work around auto-enrolment. Does that mean that you then have—I have not seen it if you do—a cumulative assessment of both the effects of the STP and auto-enrolment? In particular, the Green Paper talked about reducing inequalities, which are a significant issue for people in retirement. Has there been a cumulative assessment of both and the effects on people, particularly those on lower incomes?
Steve Webb: Yes. We plan to publish, I think in the spring—that euphemistic phrase—a combined assessment of the sort you describe.

Q161 Debbie Abrahams: There has not been anything yet.
Steve Webb: We are near to publishing, but we have not published yet.

Q162 Debbie Abrahams: Sorry to push you on this. You are referring to, then, the evidence that is available through that cumulative assessment. It would be very helpful if that were available for the Committee to use in our deliberations.
Steve Webb: We have yet to publish very detailed projections, but I was just giving, in a sense, a description of what is in the public domain already. If we do not get the Single-tier above the means test, then people on a modest wage are at risk of opting out for fear that they are not going to get any benefit from it. We have done some sophisticated modelling that gives you lots of facts and figures, but the basic principle is known to the Committee now. If the press started writing stories that said to low-paid people, "Don't bother saving because Steve Webb's just going to means test it off you," they will not save and we have blown automatic enrolment. That is all I was trying to say.

Q163 Sheila Gilmore: Won't some of those low-paid people who you are talking about start in the next 10 years—or maybe taking the last 10 years as well—and go on building up the State Second Pension (S2P). Maybe it is not quite as stark as you are suggesting. There has been some criticism that people are thinking that it is £144 rather than £107, so, if they are missing out on £144, they have been misinformed. Even in relation to that argument, surely a lot of these people, by the time they are coming to retire, even in 10 years' time, would already be building up a pension, which would complement the auto-enrolment.
Steve Webb: To a point, I agree with that. To give an example, we will come on to discuss a particular group of women. The women born in 1952 and 1953, for example, are heading in the current system to a pension of about £127 on average, so it is not as stark, as you rightly say, as between £107 and £144. If they were heading for, say, £127, that still means the first £17 they save is doing them little good. Rather than have a complex conversation, we want to have a very simple conversation with people that says, "35 years, full State Pension, clear of the basic means test. Unless you are disabled or have a mortgage, the chances are you are going to be better off if you save." We want to keep it as simple as we can.

Q164 Chair: S2P was introduced to be redistributive. It was actually very generous for those who were on low pay. Are there no regrets in seeing it passing?
Steve Webb: I suppose one of the frustrations for me with S2P is, when I looked at the State Pension system, we had two separate State Pensions: one triple-locked, one price-indexed; one accrued over 30 years, one accrued over 49; one with some credits, another with a different lot of credits; one that was becoming flat rate, one that was flat rate. It seemed to me that, given State Second Pension was going to turn into an additional flat-rate pension eventually, I would far rather do that now and get on with it, rather than let it glacially move into a single flat rate, which is essentially where it was heading, decades down the track. I wanted to get to that point of simplicity in a relatively redistributive way, because Single-tier is still, in the medium term, pretty redistributive.

Q165 Nigel Mills: Can I take you to the start date that I think we are aiming for, April 2017? Could you tell us how optimistic you are that that will be the start date and what, if anything, might make it slip?
Steve Webb: The two things we have had to think about in terms of start date are, as it were, our computers—can we operationally deliver this new system?—and company pension schemes. With the abolition of contracting out, they may have to do valuations and decide how to adjust their accruals in the light of the changes, and they need time to do that. Those are the two things that we have to get right. I am increasingly confident that there is no risk of April 2017 slipping, and I can say to the Committee that I would hope to be in a position to be definitive about the start date before we bring the Bill to the House.

Q166 Nigel Mills: Does that mean you might put the start date in the Bill?
Steve Webb: We would generally not do that. Clearly people need to know and they do not need to think we are going to keep mucking about with it, but the issue with start dates in Bills is always, if something happened beyond our control—say the European Union suddenly imposed Solvency II on company pension schemes, with a massive impact—you might want the ability not to have to pass another Act of Parliament just to change the start date by a period. It is keeping that reserve flexibility, but clearly we will have to plan on a definite date; company pension plans will want a definite date. We will want to be as certain as we possibly can. In some ways, there is a risk of putting too much in Bills because then, if you do want to change something subsequently, you need primary legislation to do it and you do not have the flexibility you need. It is a balance.

Q167 Nigel Mills: I am not sure we are risking having too much in the Bill here. Having the date in this Bill is pretty fundamental, because we are expecting people and companies to plan their affairs around a pretty important date. There will be a suspicion that, if it is not in the Bill, perhaps it could slip by six months here or there. Actually, if it is written in legislation, it would be much harder to change it and that would drive behaviour towards achieving it, rather than moving it.
Steve Webb: I understand that. One of the disciplines we have in Government that our predecessor did not always have is the Office for Budget Responsibility, which signs off our fiscal plans a number of years ahead. We have to give a measure of policy certainty. We keep in our back pocket the opportunity if something pretty dramatic happens but, as I say, we will want to be as certain as we can prior to even bringing the Bill to the House. There will be a big political cost to changing it, so that is part of the safeguard.

Q168 Nigel Mills: There is the pesky hurdle of a General Election between now and 2017. Wouldn't it be sensible to make sure that that date is in the Bill, so people could have some certainty that this will not change if there is a change of Government in that time?

Steve Webb: We hope that the legislation will be cleared with all-party support in this Parliament. I await to see, but I hope so. I hope then that we will be getting on with planning; company pension funds will be getting on with planning. You cannot bind a subsequent Parliament anyway, so it would not add a great deal to the certainty. If a future Parliament wanted to stop this, they could do it in a day.

Q169 Nigel Mills: In a day you could change the date, if you really needed to. Just to test your memory of these issues, are you aware of any other pension legislation where the implementation date has not been set out in the actual Act?

Steve Webb: It is a general practice to commence different bits of Bills, for example, by what are called commencement orders. I have signed in my time commencement orders. To give the Committee one example—I hesitate to say this—when I restored the earnings link, I did it by means of a commencement order. It was not a date in legislation; it was not an actual date. I signed to say, “This shall have effect with immediate effect.” There is plenty of precedent for things being done through commencement orders. I just want to draw a parallel to the 2008 Pensions Act, which was the one that brought in auto-enrolment and NEST. There is quite a strong feeling, and I think the CBI said this in evidence to you, that that legislation was over-prescriptive. There was far too much on the face of the Bill, which has meant that getting things changed that everybody now thinks need changing has got an awful lot more difficult. It is a balance. As I say, we hope to be a great deal more certain on the start date very soon.

Q170 Glenda Jackson: The start date has slipped somewhat disastrously already, hasn’t it, for those 80,000 women who were born between 6 April and 5 July 1953? When their pension age was raised by the Government in 2011, they were told that they would be eligible for the introduction of the new Single-tier Pension. They are now being told that they will not. Apart from the possibility of the date slipping even further, can you reassure us on that? What steps are you taking to ensure that these women are not excised from the changes?

Steve Webb: You are of course correct. The White Paper said that we aimed for 2016; we have now said, “Not before 2017,” so we have moved since the Green Paper. That is right. I hope that Members of the Committee have had a chance now to see the short note that we sent to the Committee earlier in the day, where we have looked very carefully at this group of women. The criticism seems to be that it is not fair because, if they were men, they would get a Single-tier Pension; because they are women, they will not. We asked ourselves, “What if, hypothetically, you sent each one of these women a form and said, ‘Would you like to be a man? Would you like to have your National Insurance record but be treated as if you were a man born on the same day?’” In other words, they would be a Single-tier pensioner but at male State Pension age. Overwhelmingly, 85% of the women in the two groups would do better where they are than if they had the whole package that a man born on the same day gets, which is a 65 State Pension age and a Single-tier Pension.

Glenda Jackson: You mean retaining their present gender, they would be in a better position.

Steve Webb: Better off, yes, absolutely. That might not be the happiest phrase I have ever used, I suppose. The point is that, typically, we have looked at these women’s position under the current system, and they get about £127 a week. With their National Insurance record, they typically get about £133 under the Single-tier, so they would be about £6 a week better off. That is what they are missing out on. It is not £40 or whatever; it is £6 on average. That is what our figures tell us but, on average, they would have to forgo between £7,000 and £20,000 worth of pension if they waited until they were 65, which is what a man would have to do. That is the situation at the moment.

Q171 Glenda Jackson: Are you pretty confident that the date is not going to slip again?

Steve Webb: Very confident.

Q172 Sheila Gilmore: Nobody is an average. Nobody is an average person who has this £127 or the £133. There are indeed some who will be in a very different position. Isn’t that the case?

Steve Webb: Just to be clear what my 85% was, we have looked at a synthetic sample of all of the women in this group. We have not just done it on average. I have given you an average figure but, taking all of them, 85% would do better to be treated as women with women’s pension age than as men with men’s pension age, on the same day. Of the remaining 15%, two-thirds of them can DIY getting themselves a £144 pension by deferring. If they want a £144 pension at 65, they can defer from 63 or whatever at very favourable terms and turn themselves into people who get £144. Overwhelmingly, this group either does better as women or can turn themselves into people who get £144. 19 out of 20 are in that position.

Q173 Chair: Does that mean you are not minded to have any mitigation for this group of women? You think that the way it is in the draft Bill caters for the complaint that they have been making to us in great numbers.

Steve Webb: There are two things. One is that the perception of what is being missed out on is not the reality. There is a perception that, if only they were Single-tier pensioners, they would be getting a lot more. As I say, we are talking about a figure of £6 a week roughly.

The second thing is we have had a look at some options. What we said to ourselves was, “If the Select Committee were to say, ‘This is a really important issue; do something,’ what could we do?” All of the options actually create a whole different set of problems. To give one example, if you were to say to people now, “You can either be who you are or treated as a man,” then we would have to give people information about which would be better for them. Of course, we do not yet know in advance who would need the Savings Credit, because Single-tier pensioners do not get the Savings Credit; current pensioners do.

What would happen if a woman chose to be treated as a man, did not get the pension until they were 65, were on a low income, came to us for Savings Credit, and we said, "Sorry, you have just rejected Savings Credit because you chose to be treated as a Single-tier pensioner"? They would say, "Why didn't you tell me three or four years ago?" We would say, "We did not know you were going to be a low-income pensioner in retirement, because we did not know what was going to happen." There are a lot of issues of that sort. As soon as you try to give people choices and options, when you do not know for sure who would be better off, you create new losers, new complaints, appeals and opt-ins. It just gets very messy. As I say, I am not convinced that the vast bulk of women in this group actually would do better if they were men on the same day. They clearly would not.

Q174 Sheila Gilmore: Doesn't your response on this illustrate the fact that this reform is not quite the thing it is cracked up to be? If it is true of this group of women that they have more pension than they thought, so they are much nearer to £144 anyway and, for some of them, because they have been contracted out, they would not get £144 anyway, then actually this whole reform is not quite as fandabbydosey as has perhaps been suggested.

Steve Webb: I think the record will show that "fandabbydosey" is not a word I have used to describe the reform. Joking aside, what we have tried not to say is: "Guess what, guys? It is Christmas in 2017. It is all misery, doom and gloom now, but if you just hold on until 2017, the sun will shine." It is the same budget. We are spending the same amount of money. What makes good pension policy is not just spending extra; it is delivering with what we have something simpler and cleaner. That is the point of the reform; it is not a windfall. On average, it is the same money.

Q175 Chair: Simplicity trumps all is what you are saying.

Steve Webb: Simplicity is fundamental, but we think the new system is fairer. To give you an example, there are groups who get credited in currently to the basic pension, but not the State Second Pension. In our world, a credit is a credit is a credit, so you get credited in to a year of Single-tier. For the people whose credits apply to one but not the other, the new system is fairer. There are a lot of things about the new system that are fairer as well as simpler.

Q176 Stephen Lloyd: One of the things, Minister, that occurs to me, and I know my colleagues around the table agree, concerns the women who have contacted us from that sort of age cohort. I was very interested in what you were saying because, essentially, if my understanding is right, what you are saying is that far fewer people, even from that cohort, are losing out to the extent that they think they are. The second thing is that even some of the lines out there—"If they did X, they would benefit by Y"—are actually untrue.

It is complicated, even though it is a very small number, and I would like to suggest that the Department, I am assuming, is able to identify all 80,000 women in that situation, give or take. Rather than doing what you are trying to do in pushing the communications out to the media and so on—because pensions are so complicated, which is why we are simplifying it, and there are some slightly mischievous lines out there in the media—I just wonder whether it might be worthwhile for the Department to write to all of those 80,000 people with exactly what you have said to the Committee. You could then explain that, more often than not, it is not as bad as they think it is, and the consequences of doing X rather than Y. I wonder if that is something that you would seriously consider.

Steve Webb: I certainly think individual communications have a place. Where we have focussed that so far has been on the State Pension age changes. One of the things I have found is that in the 1995 Act, which had a massive impact on lots of women, nobody got a letter because it was 15-odd years away. Now, we have come along, and for this group we are talking about—the 80,000—the most that we have added to their increased State Pension is six months, but many of them did not know about the increases that the 1995 Act had imposed, because nobody had told them. We have only added a maximum of six months to the 1995 Act, but that already added one or two years or more.

We have done a lot of individual writing to that group, though it is very expensive, as you can imagine. I have a slight feeling, judging by my writer's cramp, that I may have already written to every MP on this subject, and I would certainly encourage local MPs to disseminate the information further. Also, as we get nearer to the Bill and finalising the proposals, there will be more communications to come. That group will be in a much clearer position very soon.

Chair: For some of us the 1995 Act was five years extra. Debbie, you had something else to add.

Q177 Debbie Abrahams: Minister, there are a number of people, mainly women, who have got poor NI contributions and would be retiring expecting to receive between £64 and £107 per week, based on their spouse's contributions. Of course, they will not be entitled to it under this Bill. First of all, how many people do you think will be affected by that?

Steve Webb: The issue on derived contributions is quite surprising, because one of the things we discovered—and I will give you some figures in a moment—is that there is a set of people now getting these sorts of derived pensions that you describe who have never even been to Britain. If you have a spouse who has a National Insurance record, you can claim a 60% pension, the sort you describe—£60-odd a week—based on their record when they reach State Pension age, even if you have never seen the White Cliffs of Dover—even if you have never been here. The reason I mention that is not to make an abstruse debating point. A growing proportion of the people who are getting these derived rights are not the traditional housewives—because, for all sorts of reasons, they are getting more—but people who we would never have intended.

Q178 Debbie Abrahams: What are we talking about—5%, 10%, 20%?
Steve Webb: 20%.

Q179 Debbie Abrahams: You can say that 20% have not actually lived in the UK and are getting derived rights?
Steve Webb: If I give you the exact figure, overseas the proportion of women reaching State Pension age in 2011, and based to some sort of pension based on their husband's National Insurance record, was around 20% compared with 10% in GB. Whereas in GB the number of women getting a derived pension is falling, because women's pension rights are improving, the numbers and proportions we are paying overseas are going up quite strikingly.
Let me answer your specific question. First of all, you cannot get the £60, the so-called married woman's pension, but you can get a pension on your own record that will be in 35ths of £144. As long as you have about 15 years, 15 35ths of £144 gives you the equivalent of the £60-odd you would have got anyway. We are talking about people who do not have, in a working life, 15 years. Assuming they were in the country for their whole life, they have had about 50 years. The question is: apart from the married woman's stamp, which is a separate issue we have made separate provision for, what were they doing in 50 years not to get 15 years of contributions or credits? I hesitate to say we almost credit people for getting out of bed, but we credit people for working, for looking for a job, for being sick, for being at home with children, for being a carer, for being the spouse of a member of the armed forces and so on. The credits are so comprehensive that to manage 50 years in Britain without 15 years of contributions takes some doing. Mainly the people who will not get 15 years have not spent their lives in this country, so will have pension rights, potentially, from somewhere else. If they do not, it is more to do with the regime in those countries than in this one. A generation ago, I would have absolutely said this is a vital bit of the system. Today, it is a very unusual set of people who cannot even get to that figure.
Let me give you a couple of stats, if I may, because you have asked for some hard evidence. By 2020, we think that less than 5% of Single-tier pensioners—women, female pensioners—will get less because we have got rid of this Category B. That is about 30,000 women. Cumulatively, by 2020, there will be about 30,000 women who will get less than they would have got, because we got rid of what are called Category B pensions. As I say, they will be people who do not even have 15 years.

Q180 Debbie Abrahams: On that basis then, I am assuming that you will not be reconsidering this in terms of derived rights and honouring those women that may be losing out. Is that what you are saying?
Steve Webb: Where you say "honouring", let me just clarify. There is a very particular set of women who had a legitimate expectation, because they opted out. They paid the married woman's stamp, and then they get up to pension age. The deal, when they paid the married woman's stamp, was they could get something on their husband's record. We recognise that and we will honour that in the sense that what we have said is, if you paid the married woman's stamp in the previous 35 years, then we will have special provision for you so that, essentially, you get at least the £60-odd floor. We will honour the people who actively opted out of National Insurance on the basis of a deal. People who just never got to 15 years, these 30,000 or so by 2020, will get less than they would have done. In some cases it will be not much less—possibly only a few pounds less.

Q181 Graham Evans: Just a point of clarification: regarding the 20% that you mention have never stepped foot in the country, can you give us an idea of which countries they currently reside in?
Steve Webb: This is one of these things: it can be anywhere. Where the spouse lives, for example, does not matter; you are claiming on the basis of a UK National Insurance record. You can be anywhere in the world and claim on the basis of the National Insurance record of someone who has built one up in this country.

Q182 Graham Evans: 20% is a sizeable figure—one in five, a fifth. Can you give us an indication of, out of that 20%, which country has the most beneficiaries of people who have not actually been here?
Steve Webb: In general, the majority of pensions we pay overseas are to either EU countries or to Commonwealth-type countries. I cannot give you a specific country that is top of the league, but those tend to be the main countries.

Q183 Anne Marie Morris: The draft Bill does not specify the minimum number of qualifying years, but the White Paper has suggested it is going to be between seven and 10. As things stand, there is actually nothing to stop the Government saying, "Okay, it is going to be 15." I appreciate that you need flexibility, but clearly people also need some clarity so that they can plan. Is there any more certainty now as to what that period will be?
Steve Webb: I would certainly value the Committee's thoughts on that issue. The numbers of people affected by that decision between seven and 10 are quite marginal. Just to give the Committee some new information—I hesitate to admit I was given it seven minutes ago, but I was given it seven minutes ago—if we chose seven years as the minimum qualifying period, we would be knocking out between 6,000 and 10,000 GB residents in 2017, so, in the first year, between 6,000 and 10,000. If we chose 10 years, it would be between 9,000 and 12,000. I do not dismiss a couple of thousand people, but those are the margins we are talking about among GB residents.
We also of course knock out people who do not live here at all, though to be honest the people who have a handful of qualifying years from Britain, and do not live here, on the whole have not had contact with us for a very long time, and a British pension is not part of their pension planning, to be frank. I mention the

Aussie bar worker, who comes over, gets starting credits, gets a few years, never comes here for 40 years and has got six qualifying years, eight qualifying years or whatever. In terms of GB residents, the difference between those two is tiny and subject to a margin of uncertainty. If the Committee feels strongly that one or other is the right answer, I will certainly share the evidence I have, but it is pretty sketchy, because we are talking about very small numbers of people.

Q184 Chair: What is the number for non-GB residents who would be included if you went for seven years rather than 10 years?
Steve Webb: I will try to give the Committee a reliable estimate of that but, at the moment, one of the problems is we have quite limited data on a lot of these groups. In any given year, the numbers coming in on less than seven are quite limited, but they will grow over time. I will give the Committee a more precise figure in due course.

Q185 Anne Marie Morris: Are you still thinking around this range of seven to 10? I hear what you say in terms of the actual numbers between them not being huge, but clearly you could have looked for less than five. Are you saying that we do not need to worry that it could suddenly miraculously be 15?
Steve Webb: Where do these numbers come from? Until 2010, you needed to have 10 years. At the beginning of this Parliament, all but a few days, you needed to have 10 years, and the 2010 changes scrapped that 10. For a woman, 10 years was a quarter. The reason it was 10 was essentially 10 out of 39 was a quarter of your working life, so you had to have a 25% record. For a basic pension of 30 years, you might say seven or eight. Now that we are talking about 35, you might say nine. That is the kind of territory we are in; that is where those numbers come from. Once you start getting to 15 and so on, you are getting a bit nearer people who have got much more contact with the country. For example in New Zealand, if I remember rightly, it is 10 years' residence for a citizen's pension. That is the kind of territory that says you have some contact with the country. Push it up too much and it is getting much more exclusive.

Q186 Anne Marie Morris: At this point in time, have you any sense as to where the ceiling might be and when a decision might be made?
Steve Webb: We would stick to the seven-to-10 range, so I regard 10 as a ceiling. I do not envisage us going beyond that. In terms of a decision, it would be brought in regulation but, again, we would be happy as the Bill went through to be more specific about a date for finalising that. The difference between those two numbers, in practice, is marginal, to be honest.

Q187 Glenda Jackson: Can I take us back? You referred, Minister, to your regarding the Single-tier Pension as being essentially fair. I think it is 453,000 women who regard it as being grossly unfair, because it is entirely dependent on their date of birth. I have already spoken about the women, but it is a much larger group than the 80,000. You have referred to some of the ideas that have been put up to you, namely that they change gender or they defer actually taking their pension. Then you went on to elucidate just how very difficult that would be. Are you seriously considering putting on the face of the Bill that there will be a choice for women in this particular group?
Steve Webb: No, absolutely not.

Q188 Glenda Jackson: It is not going to be on the face of the Bill. What does that mean? If it is not on the face of the Bill, does that mean they can defer taking it or that they can wish to be regarded as a man? If they can, where is the validity of that, if it is not on the face of the Bill?
Steve Webb: Just for the avoidance of doubt, what would happen if they were treated as being the same as a man on the same day was a kind of thought experiment to say, "What if?" We are not proposing legislation; we are not suggesting this would happen. What we are saying is, "If we went down that track, what would the numbers look like?" The numbers would show overwhelmingly that that would be a mistake; 85% would do worse than a man born on the same day with the same National Insurance record. But that is different from deferring.
They can defer now. They can defer without us legislating. In deferring, they get incredibly generous terms: 10.4% for a year. If you do the maths, if you get 10% on your pension and you defer a year, then all you have to do is 10 years at 10%, which is 100%. You can see very quickly that, if you defer, you are quids in. The 10% is overgenerous relative to how long people live. Women in that age group can get an extra 10%, another 10% and another 10% for every year they defer, and can end up above £144 in most cases, without even doing anything. There would not be anything in the Bill on either of those things, because they can do one anyway, and the other we are not proposing, just for the avoidance of doubt.

Q189 Glenda Jackson: You did say yourself that, if they defer that pension, they are told, when they actually apply for the pension, that certain credits that would have run along are no longer there.
Steve Webb: No; sorry, I may have confused the Committee. If their State Pension age is under the current regime, they have all the entitlements of the current regime, including Savings Credit. Those women, if they defer, are still non-Single-tier pensioners. They get their enhancements for 10%-odd, Savings Credit, derived rights and all the rest of it, under the current rules. The point I was making is if, hypothetically, we let people opt for the full package—to use my phrase—and turn themselves into men, they get the full package. They miss out on Savings Credit, miss out on derived rights and so on.

Q190 Glenda Jackson: Will that sort of information be out there for them, and when will that information start to be fed back in?
Steve Webb: One of the challenges we have is we want to get accurate information out to people that does not then change, and because this is a draft Bill

and we obviously want to think about what the Committee has to say about it—and obviously Parliament will want to have its say formally—if we put stuff up now and then the Committee or Parliament suggests we change something, we have to edit it and change it. What are trying to do is get information out there. For example, if the Bill was introduced early in the next session, and had Royal Assent early in 2014, we still have three years to communicate and all of that. The point at which to do most of the communication is when the policy is settled, rather than when it is up to change.

Q191 Chair: Can I be absolutely clear? What you are saying is that you think the proposals that you have presently in the draft Bill are better for this group of women than any of the suggestions for mitigating things that could be put in place.
Steve Webb: Yes.

Q192 Glenda Jackson: Does that include the issue of the married woman's stamp and those kinds of contributions? We have had a lot of concerns expressed to us about that. I do not know whether this is fact or fiction, but there are also concerns that there may be a removal of the pension to a widow or to a divorced spouse.
Steve Webb: On the married woman's stamp, there is specific provision in the Bill to protect women who have paid the married woman's stamp and might not get the basic amount they were expecting. That is in the Bill. For widows, again there is transitional provision. For example, if—I hesitate to say "prospective deceased husband"—the person you are married to has a pension under the current regime, you will be able to get a widow's pension on his contributions, even under the new regime. There are an awful lot of transitional measures in this.

Q193 Glenda Jackson: Does that also cover divorced partners, where there may be a legal agreement when it comes to the pension rights?
Steve Webb: Legal agreements tend to relate to private pensions and so on, which we are not changing. If the person from whom you would derive the rights is a pensioner under the current system, you will continue to be able to derive widow's rights and divorcee's rights.

Q194 Glenda Jackson: We also had a great deal of evidence that carers, who can claim National Insurance (NI) Credits, do not because they do not know about it. Are you taking any steps to change that situation, and what would be the situation for them when the new system comes in?
Steve Webb: The Committee has landed upon something, if I may say so, on that issue.
Glenda Jackson: It is not unusual for us, is it?
Steve Webb: Indeed, but I have left you to say that. There is much more we can do. Let me give you an example. We write to people when they miss a year of National Insurance. It is called a deficiency notice. We say, "Would you like to pay up for that year?" What we do not do in that letter is say, "By the way, if the reason you do not have a year's National Insurance is you were a carer, a grandparent, whatever, did you know you can get a credit for that year?" We do not do that. Of course, the people you say could get it and do not are exactly the same people we are sending these deficiency notices to.
In the light of your inquiry, we are going to work with HMRC, who send the letters out, and try to get the text of those letters changed to flag up this fact. We invented some of these credits. The previous Government invented some; we invented some. We invented them because we want people to claim them. You have highlighted the fact that many people are not, and we are not just going to sit back and let them not claim them. We are going to flag to those very people that they should do so through changing our literature, so we are very grateful for that.
Glenda Jackson: Could you put the letter in something other than a brown envelope that nobody will ever open?
Steve Webb: With HMRC on the outside of it. It is a fair point.

Q195 Anne Marie Morris: On the number of qualifying years, was the change from 30 to 35 based solely on affordability?
Steve Webb: No. Let me deal with that. Briefly, incidentally, I was asked the question about how many people were excluded by the minimum qualifying amount. If I may, briefly, broadly speaking the figures I gave for the GB population are roughly the same also for the overseas population. It is of the order of 10,000-ish that we are talking about overseas, just to put that on the record. I have suddenly remembered the number.
On the 35 years, we are merging two pensions—a basic pension they currently get for 30 years and a SERPS pension that you can accrue over nearly 50. In a sense, if you are averaging a 30-year pension and a 50-year pension, it is not unreasonable to end up with a 35-year qualifying requirement. That is the first thing. It is not going from 30 to 35; it is going from 30 and nearly 50 to 35. That is the first thing to say.
The second is this is a pension for the future, in a world where we already know State Pension age will rise to 66, 67, 68 and whatever longevity takes us to. In a world where people are leaving school at 18, let's say, and working to 68—50 years—is it reasonable to expect that for about two-thirds of that you are either paying National Insurance, caring, or looking for a job? That does not seem to be draconian for a full pension. Yes, of course it saves money, so it helps us to fund the level. There is a trade-off here: how many years, what level and all that sort of stuff. In a world of longer working lives, paying a pension at 35 years, two-thirds of your working life, seems to be about right.

Q196 Anne Marie Morris: Have you done the numbers as to, if it were 30 rather than 35, what the different cost would have been to the Treasury?
Steve Webb: Yes. We tried a raft of different permutations of years, minimum qualifying years, indexation and starting levels—and I can give the Committee the exact figures in a moment—but the interesting thing is the numbers of people between 30

and 35 are not that great. Most people who are here for their whole lives tend to build up 35 and, increasingly, most women will as well. That has not always been the case. The people who do not build up the 35 tend to be, for example, what we call in the Department late-entry migrants. They are people who come to the country perhaps late in life, having worked and lived somewhere else. Although they therefore do not satisfy the 35-years test and get a pro rata reduced pension, they will often bring in pension rights, assets or something from the country they were previously in. Again, for people who do not make the 35 years, it is not just the case that they end up on means-tested benefits or whatever; they may have a complex life history behind them.

Q197 Anne Marie Morris: Would you be able to give the Committee the figures, so that we can see what 30 would have been as against 35?
Steve Webb: Yes.

Q198 Anne Marie Morris: Did you look at whether or not there would have been a particular peak when it would have been particularly expensive had we gone for 30 rather than 35?
Steve Webb: Coverage is building up pretty impressively because of the crediting that is going on and because there are more women in the labour market. The costs just go on rising because of the ageing population. There is no single year. Broadly speaking, on the 30 versus 35, just to clarify, by about 2030—because these things take a while to build up—we are talking about £1 billion, give or take. That is in the context of a bill that, by then, would be well in excess of £100 billion. It is relatively marginal in terms of the overall cost of the thing.

Q199 Sheila Gilmore: You touched on some of this, but certainly there has been concern about the lack of take-up of some of the credits that have previously been introduced, for example things like the carers' credits. Some people suggest there should be credits for volunteering activity, if people are engaging in that. How are you addressing these issues under Single-tier? Is there anything more than just simply writing to people?
Steve Webb: Yes, although I do think writing to people is really very important, because we are writing to the right people. We are specifically taking a set of people who did not build up a year's rights in the year in question and saying, "Here are some ways you can fill that gap," so they are precisely the people we are after. There are two other things I should mention. One is having a single system of credits. At the moment, we have a list of credits for the basic pension and a list of credits for the Second Pension, and they are not the same. You would assume they would be, but there are credits for this and not for that. Even ones that have been introduced relatively recently, like the credit for spouses of people serving overseas and so on, apply to one and not the other. People get credit for one and not the other. In Single-tier, a credit is a credit is a credit, at the full rate—a 35th of £144. That will help. The other thing is Universal Credit will expand the scope of crediting. For example, some of the spouses in Universal Credit will get credits when they would not currently. Some of the working households on working tax credits and housing benefits will get credits where they would not previously. In fact, the scope of crediting is being expanded.

Q200 Sheila Gilmore: Could you just explain why that is?
Steve Webb: It is because of the way Universal Credit has been set up. Because Universal Credit has expectations that people seek work and so on, if they are satisfying those and qualify for Universal Credit, we then say, "You are doing your bit."

Q201 Sheila Gilmore: If the partners have a sufficiently low income or sufficiently low hours that neither of them is actually working, you are saying that both of them would get credits under Universal Credit that they would not necessarily at the moment. Is that right?
Steve Webb: Just to be clear, being in receipt of Universal Credit will be a source of crediting into State Pensions.

Q202 Sheila Gilmore: For both partners?
Steve Webb: Yes.

Q203 Sheila Gilmore: Do both partners therefore have to satisfy conditionality for that?
Steve Webb: They do anyway, yes.

Q204 Sheila Gilmore: Will that cover more people than were covered before?
Steve Webb: Yes; we are expanding the scope of crediting.

Q205 Sheila Gilmore: What about tax credits?
Steve Webb: It has tended to be the case that, if you were working but not earning enough to pay National Insurance, there is a kind of grey area. If you are working and within the scope of Universal Credit, then you are going to be credited in. It probably might be helpful if we set this out in more detail, but the scope of crediting, because of Universal Credit, will be broader than it currently is.

Q206 Sheila Gilmore: There is a specific issue that we raised with some of our previous witnesses and that has come up over the years to previous Governments, which is the position of people who are in fact under present contribution levels, because of their level of earnings, and are not currently credited. If they do more than one job and are under on all of them—and I have got constituents in exactly that position—at the moment they do not get any credits towards their pension. Are you saying that will end with this new system?
Steve Webb: There are two sets of people. There are the people you have just described, who have multiple jobs. They are mainly women obviously. Of many of the women who have multiple jobs, one of those jobs is above the starting point for National Insurance.

Q207 Sheila Gilmore: Supposing none of them are.

Steve Webb: I understand that, but it is worth saying that, for a lot of people in multiple jobs, one of them gets them above £90-odd a week. If both or all of the jobs are below, in many cases, because we have looked at the stats, that is because they are doing something credited, so it is because they have kids, they are a carer or whatever, so they are covered. We are down to very small numbers.

Just to give you a feel for it, we think that there are, in any given year, about 65,000 women with multiple jobs all below the lower earnings limit, of which about three-quarters are getting credits from some other bit of the system, so children, carers or whatever. These are slightly old numbers, but we are down to about 15,000 not accruing through any means in a given year. In Universal Credit, if they were the partner of somebody on Universal Credit, then they could be credited through that route, but they might not be. They might have a high-earning spouse and not get it, so there will be some, but I think the numbers are actually tiny. I am very happy to give you full details of all of that.

Q208 Sheila Gilmore: If we are really going to have the ability to record people's earnings so quickly for Universal Credit purposes, for example, would it be very difficult to simply create a mechanism to credit these people, since they are so few in number anyway?

Steve Webb: I think it is the opposite. This concerns perhaps 10,000 to 15,000 people, who probably do not spend long periods in multiple jobs. The data are limited, but there is usually a reason why they are doing multiple jobs below the lower earnings limit, which will not necessarily be permanent.

Q209 Sheila Gilmore: Maybe they cannot get any other jobs.

Steve Webb: That may be, but if they are on Jobseeker's, for example, they would get credits. To redesign the system for 10,000 to 15,000 would be massively complex. All I would say—and I do not mean this to sound how it might—is be careful what you wish for. As soon as we add their wages together, somebody somewhere in Government might say, "Oh, you have combined wages above the National Insurance floor. We would like some National Insurance, please." So a) it would be very complex for a very small number of people, and b) there might be unwanted side effects.

Q210 Sheila Gilmore: People already have to pay tax on their income.

Steve Webb: Not if they have multiple jobs below the lower earnings limit.

Sheila Gilmore: Yes they do.

Steve Webb: Only if they get to £10,000, which would take several jobs below the lower earnings limit.

Q211 Sheila Gilmore: You would expect to accumulate for income-tax purposes.

Steve Webb: It is taxable, but if all they have are two jobs, one paying £5,000 and one paying £4,000, they would not pay any income tax. National Insurance is done per job at the moment. If we started adding them together, someone might start saying, "Well, let's collect National Insurance as well."

Q212 Glenda Jackson: Could I just ask where this information is going to come from? When Universal Credit comes in, is this information going to come from HMRC? We have already had a great deal of evidence, with regard to low-paid workers, that the smaller employers are going to find the real-time exchange of information very difficult. We have already heard that there are still issues about to whom the actual payment of Universal Credit is made in two-working households, where I think the presumption is being made that the lower earner is the woman. Where is the information coming from, as far as setting up a back record of qualifying for a State Pension? Is it HMRC?

Steve Webb: Just to be clear, if I am a woman in low-paid work, we have a whole mechanism already in place for monitoring all this stuff: child benefit recipients, records of paying National Insurance and so on.

Q213 Glenda Jackson: They are all going under Universal Credit, aren't they?

Steve Webb: No. Credits for child benefit are staying and so on. In many ways Universal Credit will streamline all this stuff, because you will not have tax credits here, Jobseeker's there, housing benefit there. It will all be in a single system.

Q214 Chair: You do have the problem of the people who are over the higher rate income tax and have not taken their child benefit. How will they be credited?

Steve Webb: There are two sorts of people there. First of all, we have what you might loosely call the stock—people who are already in the child benefit system who, because a spouse or a partner is on a high wage, opt to get zero child benefit. As long as that is what they do—they opt to get zero child benefit—there is no problem, because zero child benefit credits you. As long as you are on the system, you get the credits, even if your child benefit is reduced to zero.

The challenge would be first-time mothers. What we have done there is put information in the Bounty pack that new mothers get that specifically says, "Even if you have a high-earning partner or spouse, claim your child benefit, even if you get a nil award, because it protects your pension record." The early evidence, and it has only been going since January, is there has not been a drop-off in the numbers of people getting credits for child benefit. There is no sign yet that there is a problem.

Q215 Stephen Lloyd: What does that group get currently? From the pension perspective, for that particular group, what is their current position?

Steve Webb: For children under 12, you get credits towards basic and State Second Pension. That will essentially continue.

Q216 Stephen Lloyd: I mean the group with two or three jobs, all of which are under minimum thresholds.

Steve Webb: They get nothing.

Q217 Stephen Lloyd: They get nothing. So we are replacing nothing with nothing and trying to minimise that nothing, if that makes sense.
Steve Webb: As I say, it is a narrow group, and Universal Credit may pick some of them up as well.

Q218 Stephen Lloyd: It would be of value, probably, for us to see any modelling the DWP has done on that. Again, this is an issue that comes up. I am aware it is a much lower number than perhaps is out there in the ether, but I would be interested in seeing any modelling on that so we actually have some statistics. It goes back to what I was saying earlier. One of the biggest challenges that I have identified in this, both through the Committee and as an individual MP, is that because of the noise that is out there around STP, many more people think they are losing out than are. That keeps coming again and again. I understand that you cannot do a huge drive on that yet, because we have to get the Bill through Parliament. It needs all the things that we are talking about, but it is a real problem. Even with this group, which is an even smaller group, that has also been painted as a bigger problem than it is. There is also a perception that the Department is not taking the steps that you have already mentioned. Again, I come back to the communications side.
Steve Webb: Sure, and it is worth stressing that you could spend 15 years of your life doing multiple jobs under the lower earnings limit and still get a full Single-tier Pension if the other 35 are credited or spent working. It is not like one, two or three years spent doing this necessarily makes any difference at all to your pension. It would have to be a really prolonged period and, frankly, there is usually a reason for that.
Chair, if I may, could I slightly correct something I said earlier on about divorce, just to make sure we get the records straight here? I got it the wrong way round. I have to tell the truth here, just in case anybody is listening. If a wife is a pensioner in the current system and the husband is a Single-tier pensioner, they retain access to derived rights. It is that way round, not the other. I think I may have said it the other way round.
Chair: We should have picked you up, because we did know that. Sheila still has some questions on this.

Q219 Sheila Gilmore: You raised the issue that, if you accumulated people's bits of earnings, they would have to pay National Insurance contributions.
Steve Webb: Somebody somewhere might think that they should.
Sheila Gilmore: Actually, that might well be fair. Certainly one constituent who raised this with me very recently said that she had asked if she could do that, and she was told she could not.
Steve Webb: She could pay voluntarily anyway. You can pay voluntary NICs any time you like.
Sheila Gilmore: She had obviously not been given that information.
Steve Webb: No. To be honest, you have six years to do that. It may not be the right thing to do. Often with voluntary NICs, seeing if it turns out to have been the right thing to do is the best strategy.

Q220 Sheila Gilmore: To come back to that particular point, whether you have 35 years is presumably going to be something you will not know until you are potentially quite close by. If people perhaps stay in education until they are 21 or 22, before they actually start paying anything, and maybe then have some time out and so on, you are going to be in the position where it is some time before it is clear to you that you have reached that level. How flexible is the voluntary contribution going to be for people to be able to pay NICs up if they choose to do so?
Steve Webb: I entirely agree with that. Our colleagues at HMRC laid regulations before the House on 27 February, if I recall correctly, that relax the time limits. What we are saying is, at the moment, you can go back to 2006–07—six years. We will let people go back to 2006–07 as late as 2018–19. We will let the ability to go back run on for much longer, because it is all changing. We want to give it time to settle down, get the information out there and people still to have time to make decisions about voluntary contributions. We think six years would be too tight. Not only are we relaxing the rules; we are also allowing people to pay at this year's rate, not whatever the rate has got to by the time it gets to 2018 or whatever.
There is quite a lot of flex. I must admit, I am quite startled by the amount of flex that has been built in on that front. We will be putting in information over time, so that people can log on to a website, see what they have built up so far and see what would happen if they built up extra years. Because it is much simpler in the future, we are going to try to make that available to people.

Q221 Sheila Gilmore: Would that be available on an ongoing basis?
Steve Webb: Yes, that is the intention.

Q222 Chair: Could I just ask about Universal Credit and the fact that there will be real-time information? Would that not act as the answer to the individual with three tiny micro jobs, none of which gets them the credits?
Steve Webb: It would certainly help. Yes, that is right. As I say, the question is, because we are talking about very small numbers of people and we currently do National Insurance per job, we would have to rewrite quite a lot of stuff to cater for what is, I think, a very small number of people who possibly have no detriment anyway. They can have 15 years off for good behaviour and still get a full pension. You could end up rewriting a lot of stuff, at a time when we are rewriting everything that moves, all to cater for a very small number of people who may not be losing anything anyway.

Q223 Chair: Just before we finish this section, I think you said there were between 10,000 and 12,000 UK nationals who would not get a State Pension if it was a 10-year qualifying period. Who are these people?

Steve Webb: They are quite diverse. For example—I hesitate to say this—you could have served a long time in prison. We do not credit National Insurance for prisoners, so that is one example. As I say, you could be in Britain now, but not necessarily have spent much of your life here. There is a diverse range.

Q224 Chair: Would it be the wife who has not worked, has not had any children, has not done any caring and has been at home the whole time?
Steve Webb: It could be, yes.

Q225 Chair: What if the wife has a disability, and her husband is the carer and has all the carer's credit, and she has never gone to sign on, got ESA or anything?
Steve Webb: We would not know about her unless she had claimed.

Q226 Chair: There must be people the system does not know about.
Steve Webb: Yes. Bear in mind the safety net of Pension Credit in all of this. A single person who gets to pension age with nothing and no savings gets £142.70 in today's money anyway. The couple gets £200-odd. It is not like they are destitute; there is a safety net still in place, and we envisage that there always will be.

Q227 Stephen Lloyd: The starting rate and uprating have also been ongoing issues that have cropped up. As you know, the starting rate for STP is £144, which is only marginally above the Pension Credit guarantee rate. The Green Paper proposed a more generous rate. Is there not a risk that many pensioners will be just £1.30 above the means-testing level, yet in exchange for that small amount will lose much more because they will not be passported to other benefits?
Steve Webb: You have to remember that this is a complement to automatic enrolment, so unless people opt out, they will reach pension age—assuming they get a full Single-tier Pension—with £144, which is that illustrative figure, plus the pension that a minimum 8% contribution from employer, employee and tax relief gets you. They will not retire on £1.30 above the Guarantee Credit; they will retire on £144 plus an auto-enrolment pension in the vast majority of cases. They will feel the benefit of being clearer of means-testing than just from their State Pension income. That will be the norm in future.
But you are right: there is an issue about passporting. Different Government Departments do passporting, not just us. There are issues that you would have to think through. We have had to reinvent the entire passporting regime for Universal Credit, and clearly we will have to think through whether there are knock-on effects for pensioners that we need to think about. We have not specifically proposed any changes, but you are right. Some passported benefits are tapered, which would not be a problem; some are cliff-edged. Cold-weather payments would be the obvious one. It would be a potentially adverse effect that pensioners who are a few quid above would not get cold-weather payments while those who are a few quid below would. There is a cliff-edge at the moment. As you say, there are knock-on effects of this, and we have had to think them through for UC and there is probably more work to be done on the pensions side.

Q228 Chair: You can maybe tell us what conclusion the Government has reached with regard to UC, then, because we have not heard.
Steve Webb: I think that one is above my pay grade.

Q229 Stephen Lloyd: Why not have in the Bill that the STP rate is always going to be above Pension Credit? Secondly, after a transitional period, why not look at it being 5% or even 10% higher? There are two issues there.
Steve Webb: Bear in mind that the statutory indexation of the Guarantee Credit is earnings and the White Paper assumes that the triple lock will apply to the single tier. Over time, we think the triple lock is more generous than earnings indexation, so there would be an enhanced indexation of the Single-Tier relative to the Guarantee Credit. Even if they were uprated by the same percentage, the cash amount would grow, because the single tier is a bigger number, but the average percentage increase on the Single-Tier will be bigger than on the Guarantee Credit. The cash amount will be £1.30 in today's money, illustratively, but would grow every year.

Q230 Stephen Lloyd: Essentially what you are saying is, because of the triple lock, inevitably, over a period of time, it is going to expand further away from Pension Credit.
Steve Webb: Yes, based on the assumptions in the White Paper.

Q231 Jane Ellison: Picking up on that point, I want to talk a bit about the interaction of the Single-tier Pension with some of the means-tested benefits. The IFS particularly has highlighted this idea that, over time, it becomes less generous because of the way the two interact. Can you comment on that particularly?
Steve Webb: It would be lovely to get rid of means-testing for pensioners altogether, but until we solve the problem of housing costs for renters, housing benefit will still have a significant place for low-income renters in retirement, and unless we want to stop giving severely disabled people extra money in retirement, disability premium and so on will remain a part of the system. We cannot slash means-testing, but what we are doing is accelerating the speed at which means-testing reduces. There is a built-in tendency for means-testing to become a smaller part of the system already; we are giving that more of a push. One of the things, for example, is that fewer pensioners will be on multiple means-tested benefits, which has got to be a good thing. But, depending on what happens to council tax support, there will be plenty of pensioners on low incomes still at least getting help with council tax. My view for today's pensioners and tomorrow's is we want less means-testing and more basic pension. We are doing that with today's pensioners and we will be doing it with tomorrow's.

Q232 Jane Ellison: Do you recognise the figure the IFS gave us of, in some cases, a 100% marginal withdrawal rate?
Steve Webb: If you do not have a full Single-tier Pension, so you are below £142.70, then the first few pounds might be at 100%. But in a world of automatic enrolment, unless you have opted out, you have got that on top, so any discretionary saving above the automatic enrolment minimum would be much less likely to be facing a 100% marginal rate. We have published some statistics, which I imagine the Committee has had but we can send them again, that show that our reforms are particularly beneficial on the marginal rates of the low-paid. That is the group that gets the biggest improvement on marginal rates. If we have not sent it to you, I am very happy to do so. There is a particularly nice twist to all of this, which is if you are on Universal Credit, 100% of your pension contributions are disregarded for Universal Credit. If you put £3 in to a pension, you get £2 back off Universal Credit. It costs you £1, but you get £6 because your employer is putting it in in tax. This is another way what we are doing is incentivising lower earners to save.

Q233 Stephen Lloyd: We had a chap from IFS in front of us a week or two ago. How would you respond to one of their oft-quoted conclusions that by 2050 or 2040—I am not exactly sure which—the lowest earners will be worse off under the Single-tier Pension? How would you comment?
Steve Webb: We have produced figures for 2020, 2040 and 2060 and, funnily enough, the overall package gets more progressive as you go through. In the early years, the distribution impact is fairly flat because of a lot of the transitional stuff, but in the longer term, if you think about the logic of it, we are paying a flat pension, not an earnings-related one, so by definition lower earners within any given budget would be lifted up and higher earners would fall.
It is true we are paying less than we would have done; we are reducing the rate of growth of the scheme. But as one of your witnesses said, all of those counterfactuals assume that otherwise nothing would have happened. If these very large costs as a share of national income are coming down the track, plus healthcare and social care costs, assuming no other government would have done anything is not the right counterfactual either, it seems to me. In comparison with what might otherwise have happened, I suspect we are doing better by lower earners than many other things we could have done.

Q234 Debbie Abrahams: It was not just the IFS, with respect; it was also the PPI. We need to be clear now. Again, I am not as au fait as you are with the collective work that is going to be affecting the final pension pot that somebody may have. We need to be very clear about that. Their assessment was based on the Single-tier Pension and how that compared with the current State Pension. What you are saying, Minister, is that collectively, with the different things—auto-enrolment, the STP and other measures—you think they will be better off. We need to be very clear about that. It would be quite misleading to suggest otherwise.
Steve Webb: I agree. As I say, as the decades go by, our distribution charts, from being flat, tilt towards the lower-paid doing better relative to the higher-paid. Our distribution charts look better, in my terms—and perhaps yours—as time goes by. Clearly we are not spending as much as we would have done. I am not hiding from that. By the middle of the century, we are spending nearly 0.5% of GDP less than we would have done. That is not a secret. What we do not know is what would otherwise happen if we do not rein in costs in this way; it could have been done in a much less progressive way than the way we are doing it.

Q235 Jane Ellison: Can we pick up on another group? It was put to us that disabled pensioners are potentially more likely to be affected by the interaction between means-testing. Can you comment on that?
Steve Webb: That is right. If you are disabled and drawing on Pension Credit, you would also get a premium on top, so it is harder, then, to get clear. For somebody who is disabled from birth, or something like that, and not working, frankly, the issue about marginal deduction rates and workplace savings just does not arise. The dilemma is I do not think many of us would want to significantly reduce the support we give to older disabled people. There are arguments about streamlining the system, but unless you take money away from older disabled people, inevitably they need more to get clear of the means-tested support you have just given them. That is the trade-off.
To come back with a hard fact for Debbie Abrahams, by 2040 we think that 60% of the lowest-income pensioners will see their incomes increase compared with just rolling forward the current system. By 2040, 60% of the lowest-income pensioners will be getting more under this system than under rolling forward the current system.

Q236 Debbie Abrahams: Can you explain, then, why there is this discrepancy with the analysis of both the IFS and the Pensions Policy Institute? Why are your figures so different from theirs?
Steve Webb: There are two reasons. One is that they say long term and, by long term, they mean after I am dead. They really do mean long term. The other is the difference between the stock and the flow. In a sense, what they are saying is a newly retired pensioner in half a century will be getting less than they would have done. That is absolutely true. I am talking about all the people who will be pensioners in that time. We will still care about 80-year-old pensioners in 2050; we do not just write them off. So, the other reason is that it is partly the difference between the stock and the flow.

Q237 Jane Ellison: You have already touched on housing benefit. Can we just pick up on how you envisage the arrangements for that ongoing support being managed, and if they are going to be in the regulations?

Steve Webb: Part of the way we pay for single tier early on is scrapping the Savings Credit for new pensioners. There is an amount in the housing benefit allowances for the maximum Savings Credit. The idea was that, when Savings Credit was paid, you did not want that all to be clawed back through housing benefit, so there is an amount in the housing benefit thresholds for the Savings Credit. The risk was, if we scrapped the Savings Credit and then reduced all the housing benefit thresholds by that amount as well, we ended up with a large number of low-income losers, and we felt that was too brutal. What we have said is, for a transitional period of the order of five years, we will keep that element in the housing benefit premia. That takes us to 2022, which will either be my 12th year as Pensions Minister or possibly somebody else's. It would be fair to say the exact mechanisms of how that unwinds at the end of that five-year period and how we transition to the new is work in progress.

Q238 Jane Ellison: You said "of the order of five years".
Steve Webb: It will be a Parliament's worth—that sort of timeframe.

Q239 Jane Ellison: Understood. Finishing on that point, the Pensions Policy Institute has been mentioned already. They reckon that a third of State Pensions would remain eligible for some sort of means-tested benefit under the single tier. Is that a reasonable assumption that you recognise?
Steve Webb: It is not far off, but it will decline. What will happen is fewer will get multiple ones—Pension Credit and housing benefit and council tax benefit. That will decline over time, but not as fast as we would like. As I say, some of them will be getting fewer multiple benefits. Some of them will only have very small entitlements, and therefore if they save a bit voluntarily, they are clear. It would be lovely to do all this overnight, but you are trying to deal with a lifetime's worth of under-saving, which you cannot fix close to pension age, so you have to have this still part of the system. By the middle of the century, we are down to about 5% on Pension Credit.

Q240 Anne Marie Morris: What was the strategy for the self-employed? It would seem that the self-employed come out of this doing rather well. Is there a phase two, in which you are expecting there to be a change in the NI contributions to equalise them between employees and the self-employed?
Steve Webb: There are no plans that I am aware of to change the self-employed contribution rates. One of the things that surprised me a little bit is that low-earner self-employed pay more National Insurance currently than waged low-earners do. It is only a few pounds a week, but you pay Class 2 at £5,000 or £6,000 a year, whereas you pay very little National Insurance as a wage-earner at that point because the first £5,000 or £6,000 is ignored and you pay it on the balance. You have to be over £10,000 a year to pay more as an employed earner than as a self-employed person. Low-paid self-employed are not favourably NI'd.
The self-employed have always been a problem for pensions policy, because the self-employed are not in the scope of automatic enrolment. About 10 years ago, my predecessors commissioned a report on the self-employed and pensions, and it looks very nice on the shelf where it was left. Nobody knew what to do. At least what this reform will do is bring the self-employed into the scope of the full pension, not just the basic pension. I always tend to think there are two sorts of self-employed people: there are people who have done really well, whose business is their pension and who have planned; the other set of people is the low-earning self-employed, who perhaps a generation ago would have been contractually employed, who now have no access to workplace pensions and low State Pension rights. We are at least doing something about that group.
Chair: On the thorny issue of contracting out, Nigel.
Steve Webb: Is it thorny?

Q241 Nigel Mills: It is the one you are laying the regulations on early, so there must be something in there. We are in the situation where private-sector employers will end up with the right to amend their pension-scheme rules without having to get trustee consent. The TUC has concerns this might represent a significant risk for some individual members, presumably if the pension schemes see this as a chance to sort out a whole load of issues, or maybe add some stuff on top. Is that a concern you think is realistic? Is there anything that can be done to make sure that these changes only really compensate for the reduction in the contracted-out NI that is going in, rather than anything else?
Steve Webb: It is not even in regulation; it is on the face of the Bill that you can only offset what we have cost you in lost National Insurance rebates by reduced accruals or increased contributions. It is a one-off ability, you have got to do it within five years, and it can only be up to the amount that you have just lost through National Insurance rebates. It cannot be a back-door way of doing more. That is the first thing to say.
The second thing to say—and this is a slightly crude and simplistic way of putting it—is that, on the whole, these employers are the good guys. These are the people who are still running final salary pension schemes. If they were out to do over their employees, they have had plenty of chance to shut the scheme or slash their contributions. They do not need my permission; they could do it tomorrow. On the whole, these are the employers who have stuck with pretty good pension schemes, and I think most schemes will not say, "Steve Webb has given us a big stick"; they will sit down, talk to their employees, talk to the trustees and sort it out. We have given them a backstop and a reassurance, and employers told us in no uncertain terms they needed that reassurance, but in most cases we do not think they will rely on it; we think they will just offset it against accruals, if they want to do so.

Q242 Nigel Mills: While the Bill gives the protection in total that you cannot try to sneak more in than the actual increased cost, is there a bit of a risk that different groups in the scheme might get disproportionately affected, so while globally there will not be a problem, for some individuals in schemes there might be?

Steve Webb: There could be a differential impact, because the only protection we have put in is that the total cost can only offset the loss of the rebate. All I would say is: as you well know, firms do not have to offer company pension schemes at all. They are not in this to do over particular groups of employees; they do this because they value their employees, because they want to retain them and because they want to recruit them. It would be very odd to then say, "Great; we have got this back-door way of being really mean to a subset of our workers." I do not see that as a particular risk, to be honest.

Q243 Nigel Mills: You do not see a role for The Pensions Regulator in overseeing what is happening here.

Steve Webb: The law will be clear. An actuary will, no doubt, sign off the amount saved as in line with the legislation. As I say, on the whole, these are the good guys.

Q244 Nigel Mills: Can I take you to the contrast between what will happen to private sector employers and public sector employers? I think the assurance given is that there will be no additional contribution requested from public-sector employees as a result of these changes. You can see that some people would regard that as being a bit unfair, and there will clearly be some funding issues for the employers concerned. What are your thoughts on that?

Steve Webb: There are two issues about the relative treatment of the public and private sector. As you say, public-sector employers, because we have given a 25-year promise, will not change the accrual rates or other features of their schemes. Public sector employees will face a National Insurance increase, like previously contracted-out private-sector employees will. Of the employees who pay more National Insurance, most will be in the public sector, because that is where most of the residual contracting-out is.

But we have done something else that benefits more private sector employees than public sector employees, which is what we call "something for something". While it is the case now that most of the people who are contracted out are public sector workers, a couple of decades ago it was the other way round. The big British industrial firms all had contracted-out final salary pension schemes. The majority of the contracting-out was private sector contracting-out. We have allowed in the Single-tier people who have been contracted-out—more private than public—to wipe off some of that past contracting-out history and build up towards a full pension anyway. We call that "something for something".

Whereas under the current system that past history of contracting-out was like a stain on their pension record, which was there forever and could never be got rid of, under our proposals you can work off that less NI you paid through future years of work, and that will benefit people with more of a private sector history than a public sector history. There are differential impacts for different groups, and simply, having made the promise on public-sector pensions, we did not feel we could then rip it up before the legislation had even got through Parliament.

Q245 Chair: I do not think anybody said ending contracting-out would be good for DB schemes, but we got contradictory views on whether it would be yet another nail in the coffin of DB schemes or whether it would not have much effect on them. I have to say that NAPF and CBI thought it would be marginal. What is your own view?

Steve Webb: Again, I keep coming back to this thing that there is a reason why the guys who have survived are still doing it. The big employers who have kept salary-related pension schemes are doing it because it is part of the package; it is something that employees value; and it is a recruitment and retention tool. While they could use the opportunity of the end of contracting-out to get rid of that kind of pension scheme altogether—and some may choose to do so—frankly, this coffin has got enough nails in it already. If they wanted a reason, they have had plenty. If they are still going now, this will have some effect, but I do not see it being seismic.

Q246 Chair: These changes might not have an impact on DB schemes, but are there other things coming down the track that make you think this is moving towards the end of DB schemes?

Steve Webb: Certainly Solvency II would be a pretty big, fat nail, which hopefully we can see off. We ought to briefly mention Defined Ambition in this context.

Chair: Indeed, that was my next question. Carry on.

Steve Webb: As and when firms finally give up on this sort of provision, what we want to avoid is that they just swing to minimalist DC. What we want to do is say to them, "You may not want, in a contracted-in world, full exposure to all the costs and so on of DB, but here is a regulatory regime and a set of models that give your employees something that is more than core DC." This is our opportunity, while firms are thinking about future provision, to catch them on the way rather than let them go to the other extreme.

Q247 Chair: But you would have to have something in place by 2017, wouldn't you?

Steve Webb: Yes.

Chair: To be honest, your plans for Defined Ambition are a bit vague at the moment.

Steve Webb: I am mortally wounded by that suggestion. We are working non-stop on them. I saw the front page of the *Daily Express* was covering Defined Ambition today, which I thought was a good sign. I take your point. Because of auto-enrolment and the end of contracting-out, big firms are doing a lot of big thinking about long-term pensions. We need to be ready for them as fast as we possibly can, and I entirely accept that point.

Q248 Graham Evans: Many witnesses have told us that the key challenge for the Government is ensuring that it communicates effectively with the public about

what the changes will mean in terms of both individual entitlement and overall impact—"it pays to work, it pays to save" I think is the mantra. What will the main characteristics and timescale be for the different elements of your communication strategy?
Steve Webb: Clearly, as I say, what we really want to do is be able to give people information that we do not then change every few years. Until we have got Royal Assent, which, all being well, could hypothetically be this time next year—that sort of timescale—we will still be up to three years ahead of when we might bring the thing in. That gives us time. As I say, there will be different communications for different people, and we can link it with the automatic enrolment communications as well. For example, we work with employers to do something called combined pension forecasts. Quite a lot of bigger firms provide company pension information and State Pension information on the same piece of paper. One of the things we are working on is not to disrupt that; where employees are getting information about their state and private pensions in the same place, we are facilitating that. That is the first thing.
I mentioned earlier our intention to have a lot of internet access. At the moment, trying to find out what your pension rights are and what they would be in different scenarios is incredibly difficult. It is much easier in a Single-tier world. You will have a foundation amount from 2017 and then so much a year until you retire. It will be much easier to have—I hesitate to say this—a Wonga-style sliding scale: you move it along X extra years and "this is the pension you will get". Ultimately, making it simple, most people will get a full 35 years and most people eventually will get £144. The communications will get an awful lot easier, but we have got a lot more thinking to do on exactly how we do all of that.

Q249 Graham Evans: The National Association of Pension Funds suggested that DWP should have acted sooner in informing the public of the changes about to happen, because there is already misinformation and misunderstanding of the changes that are going to be happening, certainly about potential losers, as some colleagues have alluded to. Should you have acted more quickly, do you believe, to communicate the changes?
Steve Webb: The dilemma you have in Government is that you cannot spend money telling people about things that are not in place. We are not allowed to spend money telling people what this new Single-tier will look like, because Parliament has not approved it yet. There is a trade-off. There are times when you can do stuff once Second Reading has happened—and you have to get special approvals to do even that. We certainly want to get on with it as soon as we can, but we are slightly constrained in that.

Q250 Graham Evans: I agree with that, and I appreciate you cannot spend money before it is on the statute book, but just thinking ahead, are there groups of people you have got in mind who you really do need to be proactively informing that they will not get something they currently think they are going to get?
Steve Webb: It is worth stressing that there is a lot of protection in the new system. When we do the 2017 foundation calculation—or whenever it is—we will take what someone would have got to date under the current system and what they would get under single-tier rules, and start with the higher of those two numbers. In most cases, people will get at least what they thought, if not more. There are exceptions. Some of the derived rights cases we were talking about would be one, as would people who have got five or six years, or whatever. There are particular groups who we could think about, but relatively few people will get less than they thought they were going to.

Q251 Stephen Lloyd: On that basis, Minister, coming back to the old sore I have been talking about, I appreciate that until it has got Royal Assent and been signed off, we have challenges around communication, but I think many of us around the table would say that an awful lot of people have the wrong end of the stick. Perhaps there is a way around it whereby some of the key grassroots campaigners, or IFS or what have you, can do some more work sitting down with some of the groups who may be putting out a more negative picture than the reality. That might be something worth considering. I appreciate you may have to wait another year, but I can tell you here and now, speaking from my perspective, that not as many people as should do realise—I am putting my cards on the table; you know I have supported this for a long time—that this is an incredibly good, progressive step, and so I would not wait a whole year for some of those groups that are rubbishing it.
Steve Webb: I would not want to give the impression that we do not engage extensively with what, in the jargon, are called stakeholders. If you think about the evidence you have got from everyone from Ros Altmann to Age UK, Baroness Hollis and so on, it is overwhelmingly supportive of the principle. That is partly because they are good people and partly because we have spent years talking to them about these things, but I am not at all complacent; I agree there is an awful lot more communication still to be done.

Q252 Stephen Lloyd: I would agree in the round that, while there will be areas in which all of the groups you have mentioned have concerns, they have completely understood the progressive upside. However, a number of other key ones do not and have not.
Steve Webb: For the long term, now that financial education is going to be on the school curriculum, in 50 years' time it will all be sorted.
Graham Evans: A constituent came into my constituency talking about this, specifically to tell me that she had been off for 15 years bringing up her children and she knew exactly where she stood and what she has to do to make sure that she has a comfortable retirement.

Q253 Nigel Mills: There is one particular group of people who really struggle to work out where they are, and that is people who have had some years of

contracted-out who will get some kind restriction, which I am not sure we know the calculation of yet. I had one write to me this morning trying to work out if he is better off or worse off; I think it might take me quite some time. When are you actually thinking you will be able to write to people to say, "Your foundation amount is going to be X"? Is that going to be March 2017? Are you going to try to get that as early as you can?
Steve Webb: If we had Royal Assent this time next year, we would then be able to supply people with the information. We would not wait until 2017, for example. Obviously everybody of working age potentially has a foundation amount, which is 40 million-odd people, so we are not going to write to them, but what we will do is, over time, make the information available online so they can just go online if that is the way they want to do it. As you say, the key number will be your foundation amount. Obviously you will not know until 2017 what it is, because you have still got some years to build up towards it. People will know what that number is, they will see what they have to do to add to it, and the communications will get a lot simpler. I am aware at the moment that you have to go all over the place for information about the crucial issue of buying voluntary NI contributions, for example, which will be a crucial question for many people; we want to make that all in one place.

Q254 Nigel Mills: I thought the Government was going to start writing out to us all with a tax statement every year telling us what tax we had paid and how it was being used. You would think the same envelope could have "here is your pension entitlement" in it.
Steve Webb: Yes. We might need a few computer systems to talk to each other a bit.

Q255 Chair: Isn't it as basic as most people having no idea whether they have been contracted out or not? They may have been contracted out, back in and out again if they have had quite a chequered employment history. Is there any way, even now, that people can find out that simple, basic information about their own situation? That might help to allay some of the fears, particularly in the group of women that we are talking about. They have just seen the statistic that they are going to get £107 as opposed to £144. Actually, they are not going to get £107, because there are all sorts of other things they might get, but they have no idea and there is no way they can find out. I was trying to do something with my sister-in-law and I got confused. I think I confused them more than I solved it.
Steve Webb: You can get a State Pension statement now. We have stopped calling them "forecasts", but essentially they tell you what you have got so far and have some illustration of what you could build up to. It is very important to stress the scale of all of this. We are talking about everybody of working age. We are talking about 40 million people, with all their complexity. Initially, it is going to be people who want to know who will be able to find out, but what we want to do is get to a situation as quickly as we can where it is really easy to get the information for yourself. I take the point on contracting-out. The reason this is not as clean and easy as it should be is because we have to be fair to the past, but try to transition out of the past and not leave it as part of the system for another 50 years. That has been the biggest complexity we have faced.

Q256 Chair: The answer is no, then.
Steve Webb: The answer is yes. You can get a State Pension statement now.
Chair: But it is often not the State Pension that would—well, I suppose it would inasmuch as they have not got more than £107.
Steve Webb: Yes.

Q257 Graham Evans: Further to my colleague's point, we all look at our wage slips. Everybody gets a wage slip. You could put a statement in there. It currently says how much has been taken out and how much has been put in by the employer, so the figures are there. On an annual basis, it clearly brings up the pension figure, and perhaps that could be incorporated onto a pension slip or, failing that, just a website: "Go to this link to find out." The technology has got to be there.
Steve Webb: You would think, wouldn't you? I have a funny feeling I am over-promising, but we do aim to have a website-based solution, certainly sooner rather than later, in a way that you just do not now because it is too complicated. That is the goal.

Q258 Graham Evans: Can we go on to frozen pensions? You are well aware of the strong feeling of some UK pensioners living in certain Commonwealth countries whose UK State Pensions are not uprated when those in some other countries are. How many UK pensioners are affected? How much would it cost to uprate their pensions each year?
Steve Webb: In terms of costs, we are talking of the order of £650 million, if we started now paying the pension that would now be in payment if it had never been frozen. I hope we have already supplied you with statistics on the figures by country, but I am very happy to give you that in a moment. The main countries we are talking about are Australia, South Africa, Canada and those sorts of countries. This is quite a complex issue. There is this assumption that people live in Britain all their lives and then retire to Australia, but quite a lot of the British pensioners in Australia went there 20 years ago, or whatever it is, and spent quite a bit of their lives in Australia. As you will know, we have not changed the rules; the rules have not changed for decades and decades and decades. It has been the situation—it was the situation when they left—that their pension in payment would not be increased. The difficulty we have faced is that we have been trying to take £12 billion-odd out of the benefits budget for people who are living in this country. Of course I can see it is a pretty odd system we have ended up with—anybody can see it is a bit odd, this country and not that country—but if we then said, "We need £650 million for British people who have retired to other countries so that we can make the rules more generous than they were when they left," would that be the priority for £655 million?

Q259 Chair: The thing that makes them feel there is an injustice here is the fact that in the Commonwealth countries you are frozen, but you can be in other countries and it is not. The anomaly really annoys them a huge amount. If they had only emigrated to some other country, they would have still had an uprated pension.
Steve Webb: I am not sure I can add much more.

Q260 Chair: What is going to happen under the new system?
Steve Webb: We will carry on the current arrangements. We are not changing them.

Q261 Chair: If they have already got the £144 built up and they leave with that, it will stay at £144 and that is it; that will never increase.
Steve Webb: Yes.

Q262 Chair: Will that be true for all countries, or still these same countries?
Steve Webb: There is a very detailed and slightly obscure clause in the Bill—I think it is clause 18—that is about increments on these pensions, so we are making a tweak on that. But the basic principle is identical: the same countries. About 90% of the people we are talking about are in four countries: Australia, Canada, New Zealand and South Africa. Those are the big four, essentially.

Q263 Chair: They feel that, when you were an Opposition minister, the things you said suggested that you were sympathetic to their cause and that you might try to do something about it.
Steve Webb: Let me address that in two ways. First of all, of course I am sympathetic, but sympathy butters no parsnips. At the time when we were debating those issues, the public finances were in a vastly more healthy state, but even then the previous Government decided this was not a priority. At a time when hundreds of billions of pounds were flowing in and spent on other projects, this group was not prioritised by previous Governments. When I stood for election in 2010, I stood on a manifesto that costed the things I was promising people I would do; I did not promise a penny to a frozen pensioner. There was no promise in the manifesto on which I stood in 2010 to frozen pensioners at all.

Q264 Chair: You seem pretty firm in your views. I know that the pensions industry and employers are keen to see the regulations on contracting-out, and I understand that you hope to publish them before the Committee stage of the Bill in the summer. Other regulations, which contain many of the crucial details, affecting all 48 million working-age people, will not be available until much nearer the implementation date. Why is this?
Steve Webb: We have prepared a document—I am not sure if we have published it yet—that we will send to the Delegated Powers and Regulatory Reform Committee, which looks at what is in primary and what is in secondary. We have gone through every single regulation-making power in the Bill and looked at what is affirmative, what is negative, what is on the face of the Bill and what is not. I have looked through that in quite some detail, at each of those decisions.
The dilemma is that, because things change so much in the world of work, my view is that everything affects somebody's pension outcomes: their work; their marital status; how long they are going to live; which part of the country they are in. Pensions are affected by everything. If you hardwire a lot of stuff in primary pensions legislation, then when you just want to have some flex because something in the environment has changed and everything affects pensions, you have not got it. People keep complaining that we are constantly passing pensions Acts; that is partly because we have to keep changing the primary legislation we passed a few years ago. What we are trying to do is strike a balance. The structural framework is on the face of the Bill, but the details—we can argue about what is a detail and what is not—are in regulations and the important details are in affirmative regulations. That is the balance that we are trying to strike.

Q265 Chair: One of the concerns is that, while primary legislation undergoes a lot of parliamentary scrutiny, both in the Commons and the Lords and, indeed, what we are doing in terms of pre-legislative scrutiny, the regulations do not. They are generally either an SI[1] or a DL Committee that last an hour and a half, cannot be amended and go through on the nod very quickly. Very rarely does it last an hour and a half. Where is that parliamentary oversight and scrutiny going to happen on what is the nuts and bolts that will make this whole thing work?
Steve Webb: I feel I am partly looking at it. Part of it is pre-legislative scrutiny, so that we try to get the thing right; then there is the whole legislative scrutiny. Let me give you a counter-example. A couple of weeks ago, we did some affirmative regulations on the NEST Order. Back in 2008, everybody said, "We have got to have all this stuff. We do not want Governments mucking about; we want it hard-wired into primary legislation or affirmative regulations."

Q266 Chair: We accept the argument that sometimes there is a reason that it should not be on the face of the Bill. We accept that. Where is the scrutiny to make sure the unintended consequences do not creep in? The only people who have really been looking at it are the parliamentary draftsmen, who are great—I see them sitting behind you; I am not levelling any kind of criticism. They are absolutely superb. However, you need fresh eyes. You were hinting, perhaps, this Committee might do it, but we do not have the expertise, nor indeed do we have the time, for that kind of detailed scrutiny. Unfortunately from our point of view—or fortunately—your Government is doing an awful lot of reform in the area that we are responsible for. My question is: where is the scrutiny of these regulations going to come from? Where is the fresh pair of eyes that looks at them to make sure that the whole thing will work? You have said yourself, and most of our witnesses have said, that this is a crucial reform, so you must want to get it right.

[1] Statutory Instrument or Delegated Legislation

Steve Webb: I do. Bear in mind we published a Green Paper nearly two years ago, so the basic idea has been out there for a long time. We had a consultation on that; we published the results of the consultation on that in the summer of 2011. The IFS, the PPI and all that—everyone is crawling over this. We also work very closely with those organisations and others. We help them to model what we are doing so they can analyse and publish their own stuff about what we are doing—it is not always helpful to us, but we do that. We will have a substantial parliamentary process with the Bill; we will be very clear about where we are going. The Delegated Powers Memorandum that I mentioned has been published, so we have set out in quite some detail what is affirmative and what is negative.

I am dying to finish my anecdote. The NEST Order regulations we did took six minutes. It was so second-order it should have been in negative regulations, but Parliament back then was desperate to control and scrutinise and made it affirmative regulations. The challenge is not to stick everything in the Bill, because then it is just very rigid; it is to work out the things that really have to be in the Bill and put them in the Bill.

Q267 Chair: When will we get the regulations, then? You said the summer for the stuff that is going to affect external people that need to know—the employers and the pension companies—but what about the vast bulk of the regulations?

Steve Webb: A lot of it will be detailed and technical. We have to go through quite a lot of scrutiny; we do not just bung out regulations and they are law. The Social Security Advisory Committee has a role, for example.

Q268 Chair: Not on pensions.

Steve Webb: They do on some of the stuff. Yes, you are right; certainly not some of the pensions stuff that we have done, but there is a scrutiny role on some of the regulations there. I can say with some confidence that we will be accelerating the process of producing the regulations. I am already working with officials to try to speed up that process to get out the regulations sooner.

Q269 Chair: That takes us back to our first question, and Nigel's question about the 2017 date. How fixed is that?

Steve Webb: I would be astonished if 2017 slipped.

Q270 Sheila Gilmore: One of the crucial things clearly, because you have talked about it a lot, is this interface between having auto-enrolment and greater dependence on private pensions. That is clearly part of the overall big picture. Do you think there is going to be an opportunity in the next year or so to really make an impact on some of the major problems that exist, especially with the DC-pension world? The *Telegraph* splashed yesterday on the annuity situation, but there is a whole range of things about the poor quality of what people are actually getting. How does that fit in to departmental strategy?

Steve Webb: Somebody from another Department said to me the other day, "You have done the Single-tier; auto-enrolment has started. What are you going to do with your time?" I said, "I have got a long shopping list." Quality in DC is very high up that list; you are absolutely right. Yes, we specify minimum contribution levels, but that is not good enough. We do not want people auto-enrolling to not-good-enough schemes and we do not want people auto-transferred into not-good-enough schemes. We are very actively working on a lot of those things, so that is a very live agenda.

Chair: That is our other report, on pensions governance.

Q271 Nigel Mills: The one thing that confuses my constituents on this is a lot of them think there is a big bonanza coming where they will go from £107 to £144 overnight; I can understand why we are not doing that but they may not. How long do you think the existing State Pension system that people have already retired into, and will continue to retire into, will live on after 2017? Are you envisaging that, 10 years later, we may just move everybody on to the £144, or whatever it is by then, and lose all this history? It is difficult enough now to find people who can advise people on what the situation is and what they can claim; as the years go by and they get less and less and less, it is going to be really hard for a 90-year-old in 2044 to have the foggiest idea of what they are meant to have.

Steve Webb: Once you are drawing a pension and once it is indexed once a year, how you got there may be excruciatingly complicated, but you blooming well know what you are getting; you know what that number is and you see each year what is happening to it. Funnily enough, although it may be a complicated number, once you are drawing it, we do not go into how you got there ever again; it is just your pension. People are used to that idea and are used to it going up every year. Speculating that we might take all of those and change all of those introduces whole new tiers of uncertainty.

Can I just very briefly address your point about the £107 and £144? The biggest group of people who have misunderstood what we are doing is the people who were in decent company or public-sector pension schemes. They think, "I am getting £107-ish, because I was contracted out all my life. Steve Webb is about to give all these other blighters £144." The point is, where people were contracted out all their lives, we currently take off a big chunk from their State Pension to reflect the fact that they have paid less NI, and we will still do that in 2017 on the foundation amount. There is not this cliff edge from £107 to £144; there will be lots of people—teachers, nurses and so on—who are retiring post-2017 on much less than £144, because a bit of that pension is coming from their scheme, not from the state. There is not that big cliff-edge for those people.

Stephen Lloyd: One of the challenges we will have in the whole pensions area is that a lot of those folk will not understand that. They think they are getting £144 and they have that to look forward to in a few years' time.

Chair: That explains some of the anger, as you can imagine. They genuinely believe it. Perhaps the simplification of the message was too simple, and suddenly people thought, "We are getting robbed."

Q272 Nigel Mills: Steve, you said that, once you get your pension, you know what the amount is and it is indexed. The difficulty is, on the current scheme, Savings Credit will still be around for those people, as will Pension Credit. If your savings dwindle away and then all of a sudden you are entitled to something that you were not entitled to years ago, or your spouse dies and your income changes, these things out there that people do not claim now and understand will still be out there in 2040, but almost nobody will understand how on earth they work. Are we really envisaging that that will live on until everyone that retires pre-2017 has died?

Steve Webb: We are planning some streamlining. Over time, for example, Pension Credit here and housing benefit for pensioners there will come into a single system. We know some pensioners do not claim their Pension Credit and some pensioners do not claim their housing benefit. The two will be one system, so we are already having to budget for extra spending on means-tested benefits for pensioners in some years' time because the system will be simpler. I take your point: in principle, a woman at 63-and-a-half, or whatever it is, in 2017 could still be drawing it at 100 in whatever that is—2054 or something like that. I cannot speculate on the transition arrangements at that point.

Q273 Chair: Presumably it will be up to some kind of future government, but presumably it will also be up to some kind of future government to try to float all pensioners above means-tested so that the Single-tier goes to a sufficient level and floats them off all of those.

Steve Webb: Yes, if you can fix the extra needs of severely disabled people and low-income renters, which are two groups that for the foreseeable future will need top-ups.

Chair: I think we are exhausted; I suspect you are exhausted as well, Minister. Thank you very much for coming along this afternoon. Now we go off and write our report, which we hope to publish in a few weeks' time. Can I thank you very much for coming along this afternoon?

Written evidence

Written evidence submitted by Age UK

Key Points and Recommendations

Age UK supports the aim of a single-tier State Pension above the basic Pension Credit rate which would provide a fairer, simpler system and particularly benefit those with low lifetime earnings due to low pay and caring responsibilities. Reducing pensioner poverty should also be an objective.

The level of the single-tier pension needs to be high enough to provide an adequate platform for saving and to reduce means-testing. We question if this will be achieved if it is set at £144 per week in today's terms—just £1.30 over the basic Pension Credit level.

With a pension based on 35 qualifying years and no derived rights it is essential that people are encouraged to claim credits due and that low paid part time work is adequately recognised.

The single-tier will be simpler in the future but inevitably the transition will be complex, especially as people have limited understanding of the current system. Communications about the changes and their impact present a challenge.

We welcome the protection in the Bill for some derived rights. However this needs to ensure everyone with a legitimate expectation of receiving a pension based on their partner's contributions is able to accrue a single-tier pension of at least the same amount.

State Pensions should be uprated for all UK pensioners living abroad.

The triple lock should be set out in the legislation for the basic pension and the new single-tier pension.

The level of the single-tier pension, combined with transitional protection for means-tested support, needs to ensure that those with very modest incomes reaching state pension age (SPA) in the early years of the single-tier are no worse off than under the current system.

The Government should consider extending the single-tier pension to current pensioners, perhaps phasing this in over a period of time as costs allow. In the mean-time more needs to be done to help the 1.7 million older people currently living in poverty.

Under the proposals spending on State Pensions and benefits would fall in the longer term and the Government will also receive increased National Insurance (NI) revenue. This provides scope for improvements such as a higher starting level.

1. Introduction

1.1 Age UK welcomes the opportunity to comment to the Committee on the State Pension reforms. We support the aim of a single-tier State Pension above the basic Pension Credit rate which would provide a fairer, simpler system and particularly benefit those with low lifetime earnings due to low pay and caring responsibilities. The reforms need to result in a State Pension that reduces pensioner poverty and enables more people to build up an adequate retirement income.

2. The single-tier State Pension

2.1 Clause 1 creates "a benefit called State Pension". Age UK welcomes the change from the term "retirement pension" which does not reflect the changing nature of later life. This should prompt the Department for Work and Pensions (DWP) to refer to "State Pension" in all communications as many older people object to their contributory pension being described as a "benefit".

2.2 The single-tier pension will only be available to those who reach state pension age on or after the date of implementation. While this response focuses on the proposed new system we also raise concerns about current pensioners and those who will reach SPA before implementation.

3. The Level

3.1 Age UK believes that the single-tier pension needs to be set at a level that tackles poverty, reduces reliance on means-testing, and provides a decent platform for saving. The level will be decided at the time of implementation but a figure of £144 per week in today's earnings terms is used in the White Paper and the Impact Assessment. This is only £1.30 per week above the current basic Pension Credit guarantee level whereas the Green Paper figure of £140 was £7.40 per week (nearly 6%) higher than Pension Credit guarantee at the time (2010–11 rates).

3.2 Age UK believes that it is important to maintain a gap of at least this level—while still maintaining the current value of Pension Credit. We question whether £144 per week will be sufficient to meet the aims of the reforms.

4. The Contribution Record

4.1 Clauses 2 and 3 provide for the full pension based on 35 years of contributions or credits with a reduced pension for those with fewer years, but at least a minimum number—modelled as ten in the White Paper.

4.2 Some individuals contacting Age UK have voiced concerns about the increase from 30 qualifying years. On balance we feel that this is an acceptable trade off given extending working lives and the better off calculation, as long as work and other contributions are adequately recognised. It will be essential that people understand the rules and are encouraged to claim any credits due. For example while most carers receive credits automatically some need to make a claim. And some unemployed or disabled people do not receive benefits—perhaps because they have a working partner—but may still need to claim and fulfill work conditionality requirements in order to maintain their NI record. It is also important that the earnings threshold for building up pension entitlement adequately recognises low paid part-time work—currently 16 hour's work at the minimum wage would be below this threshold.

4.3 We understand the arguments for a minimum number of year's contributions although it does produce a cliff edge. If ten years is agreed then legislation should ensure this number is not exceeded so those who might be affected can plan ahead with certainty.

5. The Impact

5.1 The flat-rate pension gives equal weight to paid earnings and credited contributions so will provide a better deal for many women, carers and self employed people with at least 35 years contributions who are currently building up little or no additional State Pension. For example the Impact Assessment shows that around 750,000 women reaching SPA in the first ten years of the single-tier will receive an average of £9 per week more.

5.2 Including changes to means-tested benefits, the Impact Assessment shows there are more winners than losers in the UK up to 2040. By 2050 proportions are similar and by 2060 there are more losers. Median changes are relatively modest. For example in 2020 median gains are £3 and losses £2 per week—by 2060 gains and losses are both around £12 per week. Especially in the early years there is limited difference across income groups. However we would like to see more information about the range of losses and the characteristics of groups affected.

5.3 Some, particularly higher earners and people with long working lives, would receive a higher pension under the current system. We know that some people feel it is unfair that in the future they will get a poorer return for their contributions. While it is right that State Pension is focused on those less able to build up private provision, it must also enable those with higher earnings to have a decent retirement income. A flat-rate pension will provide a simpler platform for savings but the level is important and as above we question whether £144 per week in today's terms provides a high enough platform to reward long-term contributors.

5.4 If the State no longer provides an earnings-related pension then there will be greater reliance on private provision. Automatic enrolment will enhance private saving but there must be decent workplace schemes in which people can save, the restrictions on NEST (National Employment Savings Trust) need to be removed, and people must receive a fair return for savings on retirement.

6. The Transition

6.1 Clauses 4 to 6 and Schedules 1 and 2 provide for the calculation of the pension where people have qualifying years before introduction. Although the flat-rate pension will be much simpler in the longer term there will inevitably be a complex transition due to entitlements already accrued and adjustments for contracting out.

6.2 We welcome the approach of calculating a "foundation amount" at the point of implementation based on the higher of entitlement under the current system or the single-tier. This provides a quicker and clearer transition than the offset described in the Green Paper. We strongly support the need to protect pensions built up over and above the level of the single-tier. This should be revalued in line with earnings—not prices as proposed—at least until State Pension age, in line with current expectations.

6.3 Many people who have heard about the single-tier pension incorrectly assume this means that everyone will receive a basic pension of £144 per week rather than £107 per week. The communication of the changes will be a major challenge and the Government will need to ensure that people have full information about their own future entitlement as well as a reasonable understanding of the reforms.

7. Derived Benefits

7.1 In general, under the single-tier system people will not be able to claim a pension on their spouse or civil partner's contributions. There will be some exceptions. Clause 7 provides for the inheritance of additional State Pension and clauses 11–12 provide some protection for married women and widows who have paid the reduced rate contributions. We welcome the protection for these groups. However, we are concerned that there will still be some people who will lose out because they expected to use their partner's contributions and will not have time to build up an equivalent pension in their own right.

7.2 For example, Age UK has been contacted by a 59 year old woman who will reach SPA after April 2017 and is extremely concerned that she will not be able to use her husband's contribution record. She worked for a few years early on in life but since then has not worked due to health reasons and has not had children. She and her husband managed on his earnings. She did not want to claim disability benefits and did not think she needed to in order to get credits because she expected to receive a State Pension on her husband's contributions.

7.3 The majority of men and women reaching SPA in the future will be able to receive a pension under the single-tier system of at least the amount they could have received based on their partner's record. However this will not be the case for everyone.

7.4 In responding to a question about the position of a widow expecting to receive a State Pension on her late husband's record the Pensions Minister stated "We will honour the past. People will not build up new rights under those sorts of arrangements, but those they already have will be honoured."[1]

7.5 Age UK believes that transitional provisions should ensure that there is protection for everyone who has a legitimate expectation of receiving a pension based on their partner's contributions and will not have sufficient years between implementation and their SPA to be able to accrue a single-tier pension of at least the same amount.

8. Overseas Residents

8.1 In line with current rules, Clause 20 provides for people living in certain overseas countries not to receive annual increases. This has long been a major concern for people who retire abroad—perhaps to be close to family or to retire to their country of origin. These pensioners have contributed for many years when they lived and worked in this country and often point out that they do not claim UK benefits or use the NHS or other services. Age UK believes that people should receive annual increases wherever they live. This Bill provides the opportunity for this issue to be reconsidered.

9. Uprating

9.1 Schedule 12, makes provision for the single-tier pension to be uprated at least by earnings in line with provisions for the current basic pension. Age UK has strongly welcomed the Government's commitment to uprate the basic pension by the triple lock. We believe this should be set out in the legislation for the basic pension and the new single-tier pension.

9.2 The triple lock is integral to the reforms to ensure that a reasonable platform for savings is maintained going forward. It is also important that once people reach State Pension age they have at least one source of income that maintains, or improves its value over time. During the course of retirement, savings often fall and many other sources of income such as private pensions and annuities lose their real value. A State Pension increased by the triple lock will help prevent older people ending up on Pension Credit later in life.

9.3 The White Paper and Impact Assessment are based on the assumption that the single-tier pension is uprated in line with the triple lock. Even with this uprating mechanism, by 2050 the single-tier is projected to cost less than the current system as a proportion of GDP. Expenditure would be lower under the reforms by 2040 if it is only uprated by earnings.

10. Means-tested Benefits in Retirement

10.1 Part 3 of Schedule 12 removes the right to receive savings credit for those reaching SPA under the single tier. This also has an impact on Housing Benefit and Council Tax Benefit for people aged 65 as the rates are linked. However the White Paper states "support will be retained for a period of five years for those people who may have received more help with housing costs by virtue of the availability of savings credit".

10.2 One of the aims of the reforms is to reduce means-testing. The Impact Assessment shows that under the current system by 2040 around 40% of pensioners are expected to be entitled to means-tested support of some form and this is expected to fall by only three percentage points under the single-tier.

10.3 Eligibility for Pension Credit falls by more—it is expected to halve in the short and longer term for post single-tier pensioners. However eligibility for the guarantee element of Pension Credit falls by less than two percentage points as a result of the single-tier pension. The main impact is the abolition of savings credit—so reliance on Pension Credit tends to be lower because the benefit is less generous rather than due to a higher State Pension. Furthermore individuals who are not entitled to Pension Credit may also lose other "passported" help such as cold weather payments and help with health costs.

10.4 Age UK supports the aim of reducing means-testing but this should be done through better pension provision rather than by cutting means-tested support. We would like to see more information about the overall impact of changes in support including passported help. We also believe the Government should provide projections showing the impact reforms have on poverty levels going forward.

[1] *House of Commons Hansard*, 14 Jan 2013, col 617.

The impact of losing savings credit and related support

10.5 Although savings credit is little understood it can make a considerable difference to the financial position of people with modest amounts of income above the basic pension level.

10.6 For example take Brian, a 70 year old man with a basic and additional pension of £160 a week. He pays rent of £60 a week and council tax of £15 a week. He has no other income and savings under £10,000.

10.7 Under the current system he receives total benefits of around £78 a week (savings credit, Housing Benefit and Council Tax Benefit).[2] If the single-tier pension had been in place since April 2012 without any transitional protection, his pension would be the same because it is higher than £144. However due to the abolition of the savings credit he would receive benefits of only about £60 a week—no savings credit and less help towards rent and council tax. The transitional protection will help although we do not know precisely how this will work and it is only proposed for five years.

10.8 While it is hoped that in the future someone like Brian will be able to build up a higher retirement income, it will take some years before automatic enrolment has a significant impact on private saving. And many will still have difficulty building up decent private pensions due, for example, to low pay or having multiple jobs.

10.9 We welcome the recognition that transitional protection is needed and will be looking carefully at the impact of this. The level of the single-tier pension, combined with transitional protection for means-tested support, needs to ensure that those with very modest incomes reaching SPA in the early years of the single-tier are no worse off than under the current system.

11. Ending Contracting Out

11.1 Employees in defined benefit schemes and their employers will face an increase in NI when contracting-out ends. The proposed calculation of a foundation amount at the time of implementation will mean that although contributions will increase, the majority will build up more State Pension as a result.

11.2 Public sector employers will not be able to change scheme rules due to agreements made, but private sector employers will be able to make adjustments. While we understand the reasons that employers may wish to change scheme rules it is essential that this is not done in a way that reduces their overall costs.

12. People Reaching State Pension age before the Single-tier

12.1 The Government states that April 2017 is the earliest that the single-tier pension can be introduced to give the occupational pension sector time to adjust. Age UK has been contacted by many older people who feel it is very unfair that people who are already pensioners will not also be guaranteed a State Pension of £144 a week.

12.2 Many feel that they are missing out on over £35 a week—the difference between the basic pension and the single-tier pension. This will not necessarily be the case as the single-tier also replaces the additional pension. However there will still be many who would receive more under the single-tier.

12.3 The Government should consider extending the single-tier pension to current pensioners, perhaps phasing this in over a period of time as costs allow. In the meantime with 1.7 million older people currently living in poverty, we want the Government to set out a timetable for the reduction and abolition of pensioner poverty and a strategy for achieving this. This should include measures to address the problem of low benefit take-up given between £3.7 and £5.5 billion of benefits go unclaimed each year by older people.

Women reaching State Pension age just before implementation

12.4 There is a particular group of women born between 6 April 1952 and 5 July 1953 who feel aggrieved that they will just miss out on the single tier State Pension whereas men born between those dates will be in the new system. Some who will reach SPA in March 2017 complain that they have had their SPA put back twice and now find that they will not benefit from the single-tier.

12.5 We acknowledge that if the single-tier is introduced from a specific date then there will always be a cliff edge. However we believe the Government should consider whether specific provisions should be introduced for this group—for example giving them the option of being treated as a man with the same date of birth.

13. State Pension Age

13.1 Recent changes to SPA have resulted in many women feeling the goal posts have been moved. People need clarity about what they will receive from their pension but also when they can expect to receive it. Age UK recognises that as life expectancy increases it is reasonable to consider extending working lives. However we believe it is very important to look at a range of factors including differences in healthy life expectancies and employment opportunities. We are therefore pleased that the White Paper says an independently-led body

[2] By 2017 the savings credit may provide less support because the level is being frozen.

will be commissioned to produce a report on wider factors as part of a five year review in addition to a report from the Government Actuary's Department. The White Paper sets out a range of factors that the Government expects to be covered and also states that "the framework will seek to provide a minimum of ten years' notice" for any increase to an individual's SPA.

13.2 However, clause 26 of the Bill simply requires the Secretary of State to commission a person or persons to report "on other specified factors relevant to the review". Either through the Bill or regulations there should be a list of factors that should be taken into account and provisions setting out clearly how any increases are to be introduced. Age UK's strong preference is for a minimum of ten year's notice to be included on the face of the Bill.

14. Cost of Reforms

14.1 We acknowledge that any improvements such as a higher starting level would increase costs and we know that the Government has stated that the new system will cost no more than the current one. We do not accept this necessarily has to be the case given that the overall costs of public pensions in the UK are lower than in many developed countries. Furthermore we note that in the longer term the costs of State Pensions and benefits under the reforms are lower as a share of gross domestic product (GDP) than under the current system.

14.2 And these figures do not take into account the additional NI revenue from ending contracting out. This is expected to increase by £5.9 billion in 2017, £4.3 billion by 2030 and £5.8 billion by 2060. Some of the increase will be from public sector employers (£3.7 billion in 2020) who will not be able to offset these costs by, for example, reducing benefits due to commitments made on public sector pensions.

14.3 However even if some of the additional NI revenue is used to support the extra costs of public service employers there will still be significant net income for the Exchequer which could be used to improve the reforms. This would potentially allow a higher level to be set, or more generous transition arrangements to be established, or both.

14.4 It is important that the single-tier pension results in a simpler, fairer system that supports private saving and leads to lower levels of poverty and low income in retirement. If overall it ends up being a less generous system it may fail to meet these objectives.

14.5 The Government has now said that some of this extra NI revenue will help finance the implementation of the "Dilnot reforms" concerning the funding of long term care. We will be looking more closely at the impact of these proposals and the most appropriate funding mechanisms once full details are published.

15 February 2013

Written evidence submitted by the Association of British Insurers

The ABI

The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

Summary

1. Overall, the proposed State Pension Reforms are good for society. The reforms are helpful to the wider Government pension reform agenda and will help people to save for later life. Given the complexity of the current system, it is unfortunately inevitable that in the shift to the new simpler single tier system, some people will receive less money than they would if the current system continued. However, this will be mitigated by the checks and balances built into the proposals and many people will clearly gain from the change.

2. We welcome the simplification and clarity that the proposed State Pension reform brings. Creating a new single-tier State Pension of £144 a week (in 2012–13 prices) gives savers clarity about how much they will need to save to top up their retirement fund to meet their needs and expectations in later life.

3. The proposed State Pension reform works well to complement auto-enrolment, the Government's flagship pension reform, and industry initiatives to improve private pensions, such as the ABI's Code of Conduct on Retirement Choices, and its Agreement on Pension Charges Disclosure.

4. The current complex three-tier State Pension system is unsustainable. We agree that a single-tier State Pension will give a clearer foundation for saving, and sooner, than the alternative of faster flat-rating of State Pension entitlements. Determining current entitlement for everyone, once and for all, in 2017 will create the clarity and certainty needed.

5. However, undoing a complex system is inevitably complex in itself. Adequate communication of the change will be essential, or the clarity and simplicity of the new system could be undermined.

6. ABI members would welcome clarity and further examples from the Government as to how an individual's State Pension will be calculated if they have been contracted-in or contracted-out for a period of time. The ABI would like the Government to clarify how the "rebate-derived amount" will be calculated for those contracted out into private pensions and believe that it should be based on the rebates actually received and not the Additional State Pension (ASP) foregone, which is likely to have been higher.

7. Keeping the overall pension system stable and allowing all of these reforms together to bed in, will enable the Government and pensions industry to focus on engaging more people in saving. With more choice and easier to understand retirement saving products and State provision, it is now important to engage individuals about what they need to do to prepare financially for later life. We hope that the single-tier State Pension secures stability in the pensions system to further encourage saving for retirement.

The proposed arrangements for the transition from the current system to the new one, including the effects of ending contracting-out of the State Second Pension.

8. Implementation of a single tier State Pension involves undoing the existing complexities of Additional State Pension (ASP) entitlements. This is inevitably a complex process. The Government faces a difficult decision in balancing outcomes for different groups, particularly around contracting out of the ASP. The Government will need to strike the right balance of fairness; and good communication will be needed to ensure it is successful.

9. We agree that the single tier is the approach most likely to achieve the Government's intended outcomes of the reform: clarity, reduced means-testing, equalisation between men and women, and sustainability and affordability. As with any reform, there are "winners" and "losers".

10. We recognise that the proposals mean that some people who were contracted in would have been better off contracted out, because they would retain their contracted-out benefits and also the opportunity to accrue to the full single-tier level. This is mitigated by the checks and balances built into the proposals. The decision to be contracted in or out might have been a complex one and in many cases it would not have been an active decision made by the individual.

11. There is no one clear way of dealing with the variety of contracted in and contracted out situations that could arise over an individual's career. As the White Paper notes, 80% of those who reach State Pension age in 2035 will have been contracted out at some point in their working lives. We do not see an acceptable alternative approach to that proposed. Given the benefits the single-tier system brings to society as a whole, and tested against the Government's intended outcomes, the ABI agree that the single tier system as proposed is the right way forward.

12. One area that requires clarification is the "rebate-derived amount" that will be deducted from the State Pension entitlement at 2017 for those who have been contracted out. This amount needs to be realistic and ensure that people do not disproportionately lose out as a result of contracting out into a personal pension. The ABI would like the Government to clarify how the "rebate-derived amount" will be calculated for those contracted out into private pensions and believe that it should be based on the rebates actually received and not the ASP foregone, which is likely to have been higher.

13. To explain why the size of the rebate differs from ASP:

— The rebates for contracting out into a private pension were intended to reflect the ASP foregone, but were considered by the ABI and others to be too low.

— The assumptions made in calculating the rebates meant that contracted out customers would have needed to see unusually high investment returns, and therefore have taken significant risks with their money, to gain the ASP foregone.

— Annuity rates are not as high as predicted in calculation of the rebates, because longevity has increased at a greater rate and gilt yields have not risen as predicted.

14. We agree with the Government's view that the rebate-derived amount will ensure that people with periods of contracting out are not able to benefit at a disproportionate rate to others. It is important that those who were contracted out into personal pensions do not miss out on building up their eligibility for the full State Pension. Therefore, it is welcome that they have the opportunity to build up entitlement to the State Pension.

15. Adequate communication of the change will be essential, or the clarity and simplicity of the new system could be undermined. No-one should feel unclear about the amount they will receive—and therefore need to save personally themselves. ABI members would welcome clarity from the Government on the potential outcomes for different groups of people affected by the reforms, particularly the effect of being contracted-out or contracted-in.

Example to illustrate effect of contracting in and out of Additional State Pension on Single Tier State Pension entitlement

Mrs Smith will reach State Pension Age in 2027, at the age of 67.

She has 35 qualifying years but was contracted out of the Additional State Pension into a personal pension for 25 years.

At retirement, on top of Mrs Smith's personal pension from being contracted-out, under the new system her State Pension foundation amount at April 2017 will be the higher of:

(a) Single-tier valuation: £144 minus rebate-derived amount*; **or**

(b) Current system valuation: £107.45 (the current basic State Pension) plus Additional State Pension minus any Contracting-Out Deduction**.

— If Mrs Smith is entitled to £144 or more, then that will be the foundation amount and no further accrual will be possible.

— If the amount works out at less than £144, then further accrual is possible, at a rate of £4.11 per year, subject to reaching the £144 single-tier level. Mrs Smith has an additional ten years until State Pension Age and it is likely that she will reach the single-tier level.

This illustrates that:

— Mrs Smith is likely to be better off as a result of contracting out, because she is allowed to accrue up to the single-tier level of £144, and will retain her benefits accrued while being contracted out.

— The "rebate-derived amount" is important in determining the outcome.

— Calculating the foundation amount on the basis of the higher of the single-tier or current system is an important safety net.

***** The rebate-derived amount is the deduction for those who were contracted out, to reflect the Additional State Pension.

** The Contracting-Out Deduction is applied under the current system for contracting out up to 1997.

Private Pensions

16. Matters in the Pensions Bill covering private pensions are out of scope of pre-legislative scrutiny, and while the issue of transfers of small pots is expected to be included in the Pensions Bill, it is not in the draft Bill. However, we would like to note for the record that we support the direction of travel of the Government's policy development on small pension pots.

17. Given the importance of the issue, we urge the Government to include these provisions in the draft Bill at the earliest opportunity for scrutiny and debate.

20 February 2013

Written evidence submitted by Dr Ros Altmann

What impact will the proposals have on women and people with caring responsibilities?

There is a group of women who are being particularly disadvantaged by the new proposals. The problem relates to the delay in implementing the reforms. The original Green Paper proposed introducing the new single tier pension from April 2016. The actual Bill proposes starting only in April 2017. This means that many of the women who have had a second increase in state pension age imposed on them—only this time at very short notice—will not receive the new improved pension after all. Originally, at the time the measures to increase women's state pension age were passing through Parliament, the Government suggested that a *quid pro quo* for these women having to accept a later pension age would be that they would get a better state pension as a compensation. This will not now happen.

Women will continue to be disadvantaged in terms of their state pension and will lose out relative to men of the same age.

In the longer term, the new system will ensure a better state pension is paid to most women and also to people who have caring responsibilities—as long as they are properly credited into the National Insurance (NI) system for the years in which they are not working.

What impact will the proposals have on future pensions who will still rely on means tested benefits?

Clearly, those who still rely on means tested benefits will still find that any private pension savings they have accrued will count against them in the means test if they claim. They will effectively lose much or all of their private pension.

What impact will the changes in the qualifying rules for the State Pension have?

Some women or people with caring responsibilities who have already retired with a 30 year NI record, who thought this is what they would need for a full state pension, will now find that they are five years short of a full record. Again, the original Green Paper did not indicate that the number of years for qualification for full pension would be increased. This is designed to save money, but by increasing the number of qualification years by five years, without giving five years' notice, there will be some who lose out.

Some women may lose out as a result of the *de minimis* contributions being brought back in. This is more likely to affect the older women who have interrupted NI records.

How will the proposals affect the future need for means-tested pensioner benefits and incentives to save for retirement

The new proposals will reduce the private savings disincentives that are inherent in the state benefits system. The current extensive reliance on mass means testing in the state pension system makes it unsafe to automatically enrol low earners into a workplace pension. To the extent that some people have avoided private pensions because of fears of losing out in the means test of the state pension, then more may end up saving and thus reducing the need for additional means testing.

Other comments

The new single tier state pension will be a better system for the future. Abolishing contracting out is an essential step in remedying some of the complexities of the current system.

The ending of mass means testing is essential if auto enrolment is to proceed and succeed.

It is regrettable that those who are already retired are not to be included in this new system, since many women have historically lost out significantly in terms of both private pensions and state pensions and the prevalence of poverty among older women stems in large measure from these historic inequities. Many of those who are already retired will have contributed for many years and if it is possible to ensure a better state pension for them in future, subject to fiscal constraints, then there would be significant social benefits.

Finally, the issue of women who should have been included in the new system, had it gone ahead in April 2016, rather than April 2017, needs to be addressed. It is a manifest unfairness and the reason for the delay is to allow private sector defined benefit schemes sufficient time to cope with the ending of contracting out. It does seem manifestly unfair to penalise this group of women so much, in order to help schemes in the private sector which offer their members far better pensions than the women who lose out will achieve. I hope that some transitional arrangements can be put in place to remedy this injustice.

15 February 2013

Written evidence submitted by the Confederation of British Industry (CBI)

1. The CBI welcomes this opportunity to submit written evidence to the Work and Pensions Select Committee on government proposals to simplify the State Pension regime. The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce.

2. The pensions landscape in the UK is changing rapidly. Automatic enrolment has come into force and we will continue to see a shift from defined benefit (DB) to defined contribution (DC) in employer pension provision in the coming years. At the same time people are living longer and therefore will need to save more for their retirement. Under these circumstances, CBI members believe a simplification of the current state pension regime would be a positive step. We believe that providing individuals with greater certainty around how much income they will receive from the state in retirement means that they will have a clearer picture of how much they need to save privately, in the most part through the scheme provided by their employer. People should take responsibility for their retirement and take ownership of the tools that would allow them to save adequately for a pension.

3. Having said that, we have also made very clear that our support for the proposals is wholly dependent on the government addressing employer concerns regarding the abolition of DB contracting out. The nature of contracting out is reflected in its name—it is a contract between the employer and the state. With one part of the deal ended—the provision of the rebate—the other part should also be ended for future accrual. Companies should be able to adjust future service in their schemes to remove the GMP (Guaranteed Minimum Pension). The CBI cannot accept any change that leaves DB sponsors worse off, including those affected by protected persons legislation. With over one million active members of private sector DB schemes the stakes for getting this reform absolutely right are very high indeed, both in terms of fairness, financial affordability and employee relations. We look forward to continuing working closely with the Department for Work and Pensions (DWP) to achieve a positive reform over the coming months.

4. In this response we set out that:

— a single-tier State Pension will make clearer to people that it "pays to save";
— the CBI cannot support any reform that does not fully mitigate the ending of contracting out for all employers;
— introducing a workable override for employers affected by "protected persons" legislation is a matter of fairness; and
— a review mechanism is the best vehicle for future changes to the state pension age.

A single-tier State Pension will make clearer to people that it "pays to save"

5. The structure of the UK pension system is a complex one. Its foundations were laid in the 1940s and since the 1960s successive governments have changed elements of both the state and private pension system. The current three tier system—Basic State Pension (BSP), Second State Pension and private pension—combined with the myriad of additional benefits pensioners can claim creates significant uncertainty for individuals trying to understand how much income they will receive in retirement, and therefore how much they need to be saving during their working life.

6. Moving to a single-tier state pension regime will simplify the system in the long term and provide certainty for individuals about how much pension they will be receiving. We believe that this simpler state pension combined with automatic enrolment will help raise awareness among individuals that it "pays to save". People will be reassured to know that what they save through their workplace scheme will not be lost through means testing in later years. This should act as an additional incentive to save.

7. Our view is that a radical simplification of the state pension regime is therefore a positive and important step to restore a culture of saving in the UK. It will also make the state pension framework simpler and more transparent with a single uprating mechanism. The reduction in means-testing will lead to administrative savings and help to make clearer the benefits of saving to people.

8. The new regime must also retain the contributory principle of the current regime. Those individuals that have saved adequately in a private pension but are below the 30 year qualifying period should not be entitled to a full state pension. The full state pension should only be available to those with 30 qualifying years or more and people in danger of falling into poverty in retirement without it.

The CBI cannot support any reform that does not fully mitigate the ending of contracting out for all employers

9. The UK is unusual in having a state pension system which allows employers and employees to opt out of the Second State Pension into alternative private pension provision which meets specific requirements. This mechanism was part of a broader package of incentives introduced during the "golden era" of DB pensions in the middle of the last century. While contracting out for defined contribution schemes has already been abolished, this is not the case for DB schemes However, over the last decade, the value of the DB rebate for employers has been diminishing rapidly. In 2006, the government set the value of the rebate at 3.7%. This was lower than the 5.8% rebate proposed by the Government Actuary's Department (GAD). In 2011 again, the government decided to reduce the value of the rebate by choosing the lowest rate, 4.8%, of the three suggested by GAD in its recommendation to government. This downward trend in the value of the rebate means that employers increasingly have to shoulder more of the cost of contracting out benefits. This makes a humane cost neutral ending of the rebate more attractive to business.

10. Based on the value of the rebate for 2013 the abolition of DB contracting out would mean an increase for employers of 3.4% of National Insurance contributions (NICs) on earnings between £5,564 and up to £42,475. This means that at the moment the value of the rebate for employers could be up to £1,285 per scheme member. If we take into account that there are over one million DB members in the private sector and five million in the public sector, it is obvious the substantial impact the abolition of the DB contracting out rebate would have on employers across the board. Data provided by CBI members shows that the value of the rebate can range from £4 million to £60 million per large private employer. It is clear from these figures that the outright abolition of DB contracting out without any sort of mechanism for employers to be able to offset the additional cost of losing the rebate is not acceptable.

11. This is a crucial issue that must go hand in hand with any other action related to reforming the state pension regime and the CBI strongly welcomes the government's planned introduction of a statutory override for employers to be able to address this issue in the upcoming Pensions Bill.

Introducing a workable override for employers affected by "protected persons" legislation is a matter of fairness

12. DB scheme closures have meant that most employers already have a split workforce around pensions. Typically the long serving employees benefit from generous final salary contracted-out pension benefits while more recent joiners are members of defined contribution schemes, which mean they pay higher NICs already. In the particular case of those employers affected by "protected persons" legislation the situation is even more complex, as some of their workforce currently would be protected from any changes to their DB benefits, while another section is not.

14. There is no trend of treating "protected persons" any differently from the other employees. This is a matter of fairness, but also because if employers are placed in the position of being able to reduce pension scheme benefits for employees other than "protected persons", this would cause serious labour relations issues. This puts employers in an extremely difficult situation with regards to the contracted-out rebate if "protected persons" are not subject to the statutory override. To offset the additional cost, employers would have to try to reduce salary or pay for those employees, which would lead to difficult discussions/negotiations with the trade unions and may well result in Employment Tribunal claims on a variety of grounds—potentially even on grounds of indirect discrimination. This option is also clearly unpalatable from an industrial relations approach.

16. It would therefore be extremely unfortunate if a consequence of the state pension reform would be that employers affected by protected persons legislation would have to recover the additional cost of the abolition of the DB contracting out rebate from either customers, which in the case of some regulated industries would be politically very controversial, or those employees where benefits can be amended, for example by reducing future employer contributions for DC members or by diverting money away from investment in growth and job creation. This would be particularly unfair, hence why the CBI would have to withdraw its support for the reform if mitigating actions are not extended to these employers as well.

A review mechanism is the best vehicle for future changes to the state pension age (SPA)

17. Deciding the age when people should be able to start receiving their state pension has broad economic and social implications. There are many factors that should be taken into account. Healthy life expectancy should be considered alongside absolute life expectancy. At the same time, the state of the labour market and the ability of older employees to continue to remain at work in their later years. Employees would not want to lengthen their working lives if they feel ill-equipped. The sustainability of the system is also important, making sure pensions remain affordable in the long-term.

18. For all these reasons, CBI members support that future changes to the SPA are considered through a review mechanism led by non-political specialists. This option would enable the latest life expectancy projections to be taken into account while at the same time considering the wider implications mentioned above. A review would also provide greater certainty for employers and employees surrounding what the SPA would be at any point in time and when it could be subject to change in the future by setting review dates well in advance.

19. It is crucial, however, that any review should be strictly independent from political influence. A review would only gain legitimacy if it is seen to be truly independent, analysing objective data and gathering evidence from all parties to make informed decisions. Lessons could be learnt from previous broadly successful experiences such as the Migration Advisory Committee—where independent labour market economists make recommendations to government on migration issues—or the Pensions Commission, chaired by Lord Turner.

11 February 2013

Supplementary evidence submitted by the Confederation of British Industry

THE STATUTORY OVERRIDE AND THE IMPACT ON SCHEME MEMBERS

1. CBI members support the provision of a statutory override for employers to offset the increase in National Insurance contributions resulting from the abolition of DB contracting out. We believe this is the right thing to do because of two reasons. First, scheme members will in general not be worse off because they will be receiving the pension from the state and not the employer. And second, as its name indicates, the DB contracted out rebate is part of a contract by which the employer pays the state second pension on behalf of the government in exchange for an NI rebate. The government has ended that contract by creating the single-tier state pension and therefore employers must also be able to end their part of the contract as well—by ending the payment of additional benefits to members for the value of the state second pension. Not providing the statutory override would effectively mean an NI increase through the back door.

2. The statutory override must also be extended to those employers affected by protected persons regulations. The CBI would have to withdraw its support for the overall reform if this is not the case. Excluding protected persons from the reform would create a two-tier workforce within those affected companies. This would not only be unfair, but would create significant industrial relations tensions.

3. The use of the override by employers will not mean scheme members receiving a smaller pension. Draft legislation includes the need for an actuary to certify that members' benefits will not be reduced before the override can be used. The only difference will be that people will receive the pension from the state rather than their employer.

4. The table attached to this note shows how employees' NICs, and the State Pensions that they are promised in return for each additional year's NICs, are expected to change for contracted-out and contracted-in workers during different stages of their careers. This has been extracted from the written submission by Towers Watson to this Select Committee inquiry.

12 March 2013

	Employee National Insurance		Increase in annual State Pension for each year's NICs	
	Before	*After*	*Before*	*After—until full single-tier State Pension accrued (then £0)*
With full BSP already accrued (30+ years NICs/credits)				
Contracted out of S2P/SERPS—currently and for most of career	Reduced rate	Full rate (up to £483* extra; smaller increase for people earning <£40,040)	Min: £0 (for people with earnings above an age-related threshold—eg, >c.£35,300 for people reaching SPA in 2022/23) Max: £85 (for people earning just over £5,564)	£214
Contracted in—currently and for most of career	Full rate	Full rate	Min: £85 (if earning <£14,700). Max: £140* (if earning >£40,040)	Usually £0. Can be £214 for a short period if person with >30 years has been a low earner throughout career
Currently contracted in; contracted out for much of earlier career	Full rate	Full rate	Min: £85 (if earning <£14,700). Max: £140* (if earning >£40,040)	£214
Until full BSP accrued (<30 years NICs/credits)				
Contracted out	Reduced rate	Full rate (up to £483* extra; smaller increase for people earning <£40,040)	Min: £185 (if earning more than an age-related threshold—eg. c.£35,300 for people reaching SPA in 2022/23) Max: £270 (if earning just over £5,564)	£214. Ability to continue building up State Pension at this rate will endure for longer than that of otherwise similar person who was previously contracted in.
Contracted in	Full rate	Full rate	Min: £270 (if earning <£14,700); Max: £325* (if earning >£40,040)	Usually £214. Can be £0 for person with <30 years if history of higher earnings over a long period. Ability to build up State Pension at this rate will expire sooner than previously contracted-out person's does.

All numbers approximate and expressed in 2012/13 earnings terms

** Asterisked contribution/pension numbers would fall gradually over time under current system*

Source: Towers Watson's written submission to Work and Pensions Select Committee, p. 154, paragraph 2.15

http://www.publications.parliament.uk/pa/cm201213/cmselect/cmworpen/writev/1000/1000.pdf

Written evidence submitted by Baroness Hollis of Heigham

i. The 435,000 women born between 1952 and April 1953 will experience a double hit—they are not only waiting much longer for their state pension, but when they get it, they will be just the wrong side of qualifying for the new higher rate single-tier pension. The effect is of a cliff edge. However if women are encouraged to consider deferring the drawing of their state pension for three years, they would attract a 10.4% interest payment for each year deferred, which would, when they come to draw it, raise their pension to around the £144 of the single tier pension. The government could, perhaps, consider other ways of smoothing that cliff edge by allowing women for a limited transitional period to be entitled to the new state pension not according to their date of birth but according to the date (ie from April 2017) when they draw it—for example because they are continuing to work past their state pension age and are willing to pay appropriate National Insurance Contributions (NICs) while they do so. Poorer women, who cannot afford to defer, may remain entitled to pension credit, depending on their household income.

ii. Universal benefits. This will come up during the debates on the Bill and I would expect amendments to be run accordingly. Universal benefits (ie winter fuel, bus pass, TV license) cost some £3.5 billion a year : of which winter fuel allowance costs £2.13 billion. Proposals have been suggested that it should be means-tested or taxed, both to save money and to end the perceived "unfairness" of it going to richer pensioners. Means-testing would import back into pensioner benefits the very issues of stigma, error, under-claiming, and high administration costs that beset Pension Credit, which the new single pension will overcome. Taxing, though superficially attractive, would produce little revenue, as 56% of pensioners pay no tax and 41% pay only basic rate. In addition, the winter fuel payment is a household benefit and taxation is individual. However, over time considerably savings, well exceeding a billion pounds a year, could be made if in 2017 the winter fuel allowance for new pensioners receiving the new single tier pension, was not paid until age 75, alongside the TV license. Older pensioners are the poorer pensioners, very often widows.

6 March 2013

Written evidence submitted by the Institute for Fiscal Studies

Summary

— This submission discusses the implications of the Department for Work and Pensions (DWP) proposals to replace the Basic State Pension (BSP) and State Second Pension (S2P) with a single tier pension, and to abolish the Pension Credit Savings Credit (PCSC) for new claimants.

Effect on Different Groups

— In the short to medium term, this proposal represents a potential windfall gain to those who had periods of caring or low earnings prior to 2002.

— However, in the long run, the proposed single tier pension is less generous to almost all groups, and particularly for those with more years of National Insurance contributions.

— It is likely that the self-employed will gain from these reforms, as they currently only do not accrue Additional Pension. How much they ultimately benefit will depend on whether their national insurance contributions are also increased, and how much pension they would have built up anyway under the current system.

Effect on Dependence on Means-tested Benefits

— The removal of the Pension Credit Savings Credit on its own will reduce the maximum income at which someone will be entitled to means-tested benefits, and so on its own should reduce means-testing.

— In the short term, retrospective crediting for the single tier pension should increase state pension entitlements for some and so also reduce dependence on means-tested benefits. However, the reduction in the long run generosity of the state pension system will have the opposite effect.

Impact on Saving Incentives

— The effect of the proposals on incentives to save are complex and vary across the population.

— On its own, the reduction in the long-run generosity of the state pension should increase incentives to save privately—although incentives would be reduced for those whose loss of income was sufficient that would expect to qualify for Housing Benefit and Council Tax Benefit.

— The abolition of PCSC means that some groups will expect to face a lower marginal effective tax rate on their private savings—as they will no longer qualify for PCSC—while some people will expect to face a higher marginal effective tax rate—as Pension Credit Guarantee Credit will be withdrawn at a rate of 100%.

— To the extent that the proposed policy would increase individuals' certainty about what pension they will get from the state, this will affect savings behaviour—although the direction of this effect is ambiguous.

Introduction

1. The Draft Pensions Bill has three elements:
   (i) Basic State Pension and Second State Pension to be replaced with a "flat rate" single tier pension.
   (ii) Abolition of Pension Credit Savings Credit.
   (iii) Bringing forward the increase in the State Pension Age to 67 by eight years.

2. None of these policy changes will affect those reaching State Pension Age (SPA) before April 2017. Each change could be brought in on its own or in combination as proposed in the draft Pensions Bill. The evidence presented below includes analysis only of the first two components.

3. We focus here on describing the impact of the proposed reforms on the incomes of and incentives to save for different groups, rather than quantifying the exact size of the different groups affected or the overall impact of these policies on the Exchequer. In work to be published in Spring 2013, we will analyse in more detail the numbers and characteristics of those affected and will also discuss the wider context of these reforms and what they mean for the role of state pension provision.

Long-run Effect of the Proposed Single Tier Reforms on Pension Entitlements

4. The current state pension system consists of two (notionally contributory) elements—the BSP and the S2P. Each year, people engaged in a range of work and non-work activities accrue entitlement towards both of these systems. As shown in Table 1, this includes anyone earning above the Lower Earnings Limit (LEL, currently £107 per week), receiving Child Benefit for a child aged under 12, or caring for a sick or disabled adult for at least 20 hours a week. In addition, a further, smaller group of people accrue entitlement only to the BSP. This includes the self-employed and those in receipt of short-term unemployment benefits (Jobseeker's Allowance, JSA).

Table 1

ACTIVITIES THAT EARN CREDIT TOWARDS THE STATE PENSION, UNDER EXISTING AND PROPOSED SYSTEMS

Activity	*Current state pension system* *Earns entitlement to BSP?*	*Earns entitlement to S2P?*	*Proposed system* *Earns entitlement to single tier pension?*
Earning > LEL	✓	✓	✓
Caring for child ≤11	✓	✓	✓
Caring for child >11	*x*	*x*	*x*
Employment and Support Allowance	✓	✓	✓
Self-employment	✓	*x*	✓
Jobseeker's Allowance	✓	*x*	✓

Notes: LEL stands for Lower Earnings Limit. Those receiving Employment and Support Allowance are only credited with S2P if unable to work for more than a year because of illness or disability. This list is not exhaustive.

5. The proposed single tier system is much more generous for the group that currently only earns entitlement to the BSP, as one year's worth of the single tier pension is more valuable than one year's entitlement to the BSP. However, for those who would earn credits to both BSP and S2P, future accrual under the proposed system (in terms of £ per week at State Pension Age) is lower than under the current system.

6. This reduction in generosity under the proposals is particularly pronounced for those with longer working lives. This is because, under the current system, one can continue accruing extra entitlement to S2P for one's whole working life, in contrast to the proposed system where one earns no extra entitlement after 35 years of contributions. The difference in pension generosity is therefore greatest for those with the longest periods of "contributions".

7. In Table 2 we illustrate the difference in generosity between the current and proposed systems, and show how this difference increases for those with longer periods of contributions. This illustration is for someone who earns at the LEL or is engaged in some other "creditable" non-work activity in each year. All the figures presented in this table and throughout this document are in 2012–13 earnings terms.

8. For an example individual starting work at 16 in 2012, one year of accrual under the current system would increase her BSP income at SPA by £3.64 per week and her S2P income by £1.71—implying a total increase in income of £5.35. If such an individual had already accrued 30 years of contributions to the BSP, each additional year of contributions would only enhance pension income by the amount of S2P (£1.71). Under the proposed single tier pension system, one year of accrual would increase pension income at SPA by £4.11 per week, and by nothing if the individual had already accrued 35 years of contributions.

9. Table 2 illustrates pension entitlements based on four example career lengths. We also illustrate levels of pension income under two alternative assumptions about the indexation of BSP and the single tier pension. Primary legislation states that the BSP will be increased each year at least in line with growth in average earnings, and the same provision is suggested for the single-tier pension. However, the current government has committed to a triple lock for BSP indexation at least until the end of this Parliament, and the draft Pensions Bill presents an alternative scenario for the single tier where it too would be triple locked indefinitely.[3] The left-hand panel of Table 2 presents figures under the assumption that the BSP and single tier levels are earnings indexed beyond 2017–18, while the right-hand panel presents figures including the triple lock.[4]

10. Someone who would accrue only nine years of contributions would receive £48.20 per week of state pension income at SPA under the current system (or £52.15 if triple lock indexation continues) but nothing under the proposed system because of the 10 year *de minimis*.[5] DWP maintains that most people who are likely to be in this situation are individuals who have worked in the UK for short periods of time but mainly live and retire abroad—we have no evidence either to validate or falsify this assertion.

11. Someone with 35 years of contributions would receive a full single tier pension (equal to £144 per week if it is earnings indexed, rather than triple locked) but under the current system would receive £168.73 per week. For anyone with more than 35 years of contributions, the differences would be larger.

Table 2

WEEKLY INCOME AT STATE PENSION AGE UNDER EXISTING AND PROPOSED STATE PENSION SYSTEMS—EXAMPLE INDIVIDUAL STARTING WORK AT AGE 16 IN 2012, ON LOW EARNINGS OR RECEIVING CREDITS FOR NON-WORK ACTIVITIES (2012–13 EARNINGS TERMS)

Indexation of BSP and single tier pension:	*Earnings indexation*		*Triple lock*	
	Current system	*Single tier*	*Current system*	*Single tier*
1 year of entitlement (in 2017–18)	£3.64 (BSP) £1.71 (S2P)	£4.11	£3.64 (BSP) £1.71 (S2P)	£4.11
9 years' entitlement	£48.20	£0	£52.15	£0
30 years' entitlement	£160.23	£123.43	£173.41	£137.33
35 years' entitlement	£168.73	£144	£181.91	£161.39
49 years' entitlement	£184.03	£144	£197.21	£161.39

Notes: For someone who is a low earner (ie earning at the Lower Earnings Limit) or engaged in other "creditable" non-work activities from 2012–13 onwards. Triple-lock indexation assumes that the BSP and single tier pension increase on average by 0.26 percentage points above earnings growth each year beyond the OBR's current five-year forecast horizon.

12. At the moment higher earners accrue more S2P than low earners do. This is being gradually phased out, with new accruals expected to be flat-rate from about 2030. However, in 2017–18, the maximum amount of S2P that anyone will be able to earn will be around £2.60 (compared to £1.71 for a low earner or non-worker). For someone with 35 years of contributions after 2012, a high earner (that is anyone earning at least £770 per week in each year) would have a maximum of £12.95 more S2P income per week (in 2012–13 earnings terms) than the low earner illustrated in Table 2.

13. Table 2 shows state pension income in the year in which an individual reaches SPA. However, the relative values of the BSP, S2P and single tier pension will change through retirement as they are uprated differently. S2P is increased in line with growth in the Consumer Prices Index (CPI), while the BSP and the single-tier pension will be uprated in line with growth in average earnings (or the triple lock, if this is continued). This depresses the relative value of S2P entitlement over time, and thus the relative values of the current and proposed pensions depend on how long you expect to live for.

14. Figure 1 shows how weekly pension income changes through retirement—the left-hand panel assumes earnings indexation of BSP and the single tier pension, while the right-hand panel assumes triple lock indexation continues indefinitely. Under earnings indexation, by age 88 the cash state pension income received under the proposed system would be higher than under the current system for someone with 35 years of contributions. The more generous triple-lock assumption reduces this to age 82.

15. For someone with 49 years of contributions, they would have to live to at least age 94 for weekly income under the proposed system to exceed that under the current system, even assuming the more generous triple lock indexation.

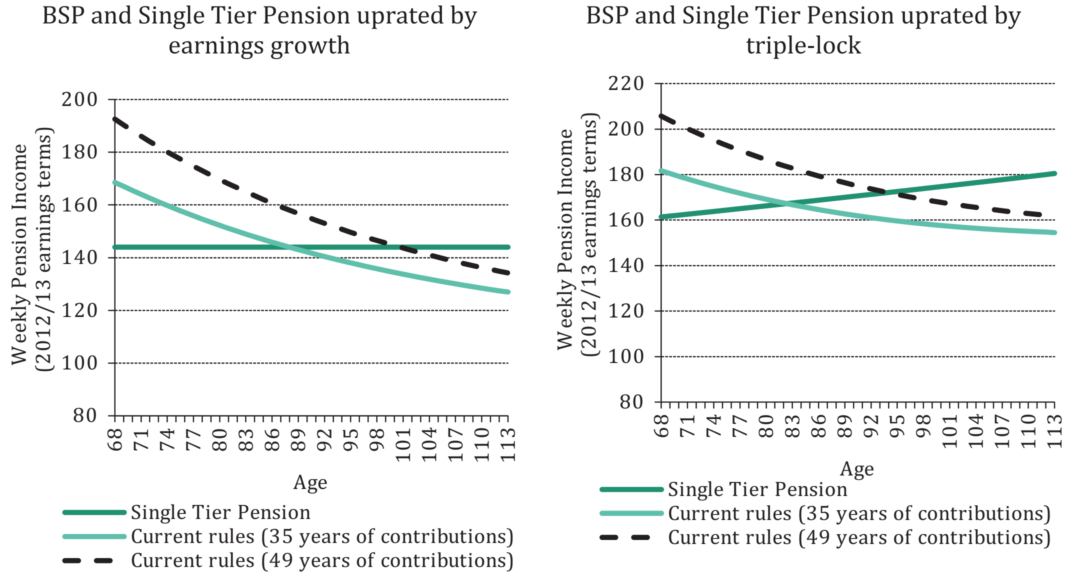
[3] The triple lock states that the level of the BSP will be increased each year in line with the greatest of growth in the Consumer Prices Index (CPI), growth in average earnings and 2.5%.

[4] We use the Office for Budget Responsibilities (OBR's) assumption that the triple lock implies growth of 0.26 percentage points above average earnings growth over the long-run.

[5] This *de minimis* creates an undesirable cliff-edge, which could easily be avoided (without incurring additional costs or affecting the overall objectives of the policy), by somewhat amending the proposed reforms.

Figure 1

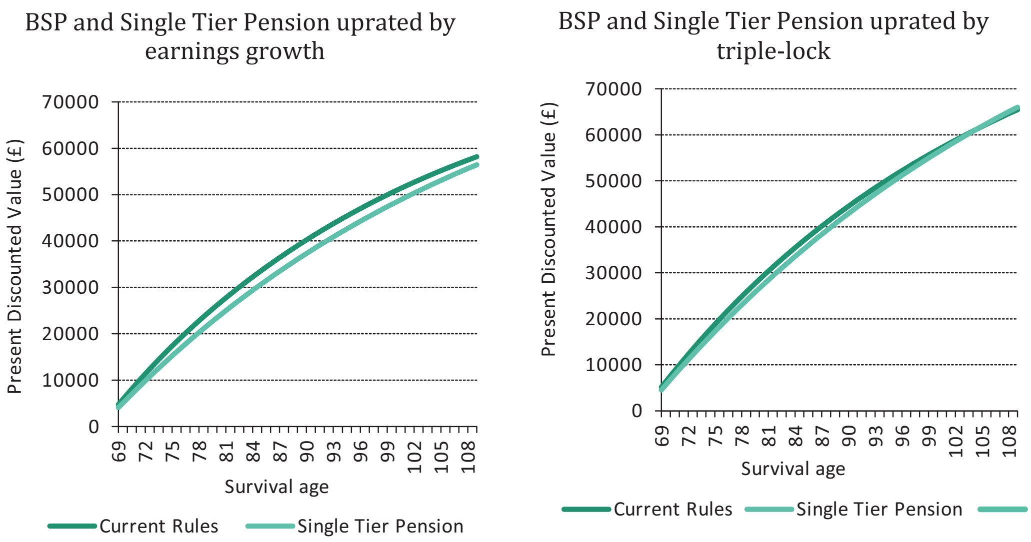
WEEKLY STATE PENSION INCOME THROUGH RETIREMENT UNDER EXISTING AND PROPOSED STATE PENSION SYSTEMS (2012–13 EARNINGS TERMS)



Notes:Triple lock uprating assumption increases uprating by 0.26 percentage points above long-run earnings growth of 4.76% per year. Graphs are for an example individual starting work at age 16 in 2012, on low earnings or receiving credits for non-work activities.

Figure 2

PRESENT DISCOUNTED VALUE OF STATE PENSION INCOME STREAM, UNDER EXISTING AND PROPOSED SYSTEMS, FOR AN INDIVIUAL WITH 35 YEARS OF CONTRIBUTIONS



Notes: Present discounted value of income stream in retirement taken by deflating income by a 3% real discount rate. Calculations are done for an example individual starting work at age 16 in 2012, on low earnings or receiving credits for non-work activities for 35 years.

16. Figure 2 shows the present discounted value of state pension income under current and proposed rules, and how this changes depending on one's expected age of survival. The value of one's pension increases with survival age, as an extra year of life represents an extra year of retirement income. For someone with 35 years of contributions and assuming triple lock uprating, one would have to expect to live to more than 105 before the total value of the proposed pension increased above the value under the current system.

Short- to Medium-run Effects of the Proposed Single Tier Reforms (Transition Arrangements)

Winners

17. The big winners from the proposed transition arrangements are those who were credited with little or no SERPS (State Earnings-Related Pension Scheme) entitlement for years before 2002, and who will now be credited for those years with a full 1/35th of the single-tier pension. This group includes those who took time out of paid work to care for children, the self-employed and low earners.

Losers

18. One group losing out from the proposals in the short term (relative to what they could have accrued under the current system) are those who have already accrued more than £144 per week of state pension entitlement, who would have been able to accrue more entitlement under the current system by working for longer after 2017. In particular, this includes those who chose to remain contracted in to SERPS and S2P in the past. Similar individuals who instead chose to contract out (and therefore have accrued less than £144 of state pension income but have correspondingly higher private pension income instead) will be able to continue to build up more state pension income after 2017. Therefore, those who chose to contract out will find they are (unexpectedly) able to achieve a higher total pension income than those who chose to contract in.

19. Probably the greatest losers in the short term are those who will have accrued fewer than ten years of contributions by the time they reach SPA, as a result of the *de minimis* proposed for the single tier.[6] Unless they choose to make voluntary Class 3 contributions in order to improve their contribution records, these individuals will receive no state pension income at all under the single tier system, whereas they could receive up to £32.76 per week of BSP income (plus possibly some SERPS/S2P income) under the current system.[7]

Impact on Different Cohorts

20. The single-tier pension would provide a more generous pension than the current system to those who had periods of caring or other "creditable" non-work activity prior to 2002. This benefits earlier cohorts more than later cohorts. In contrast, the single-tier pension rewards future periods of employment or "creditable" non-work activities less generously than the current system—particularly so for those who expect to contribute for a long time.

21. For later cohorts, as outlined above, it seems that most groups would get less income at SPA than under the current system. The single-tier pension system does, however, treat periods of self-employment (both past and future) more generously than the current system and so those with (or expecting) significant periods of self-employment—among both earlier and later cohorts—would benefit from the proposed reforms. This is discussed further below.

22. The policy is clearly a bigger cut on average for successively later cohorts, since it saves the government increasing amounts of money over time.[8] However, with the data we have available, it is difficult to be precise about exactly which is the first cohort among which the majority would lose, rather than gain, from the proposed reforms. Modelling by the DWP using PenSim2 could provide the answer to this question. However, the data presented in the Impact Assessment that accompanied the draft Pensions Bill obscured this information by presenting figures for gainers and losers that included the entire stock of pensioners at a point in time, rather than just the new flow.[9] One of the major factors that will affect where this turning point is, however, is what fraction of a cohort's working life occurred after 2002—that is, the point at which S2P, with its more generous crediting arrangements for periods of caring and low earnings, came into existence. Those born in 1986 (who will reach SPA in 2054) will have spent their whole working lives under S2P so will clearly lose on average. However, the losses will extend to earlier cohorts as well—perhaps as early as those born in the mid-1970s, who were in their late 20s in 2002 and will reach SPA around 2040.

23. However, it should be noted that the OBR's long-term fiscal forecasts suggest that action will at some point have to be taken to address the upward pressures on public spending arising from an increasingly aged population.[10] Such action will inevitably imply a net cost to later cohorts. The draft Pensions Bill policies could, therefore, be seen as an element of a necessary long-term strategy to reduce future pressures on the public finances by reducing the generosity of the pension system. In this way it somewhat offsets reforms over

[6] The exact value of this parameter of the policy has not been finalised.

[7] However, it is possible to make retrospective payments of Class 3 contributions for the last six tax years, so individuals may well be able to top up their contribution record. The returns to doing so could be very substantial. For example, someone with nine years of contributions could make one year of class 3 contributions (which in 2012–13 costs around £690) and in return would receive at least £41 a week of state pension income throughout retirement, rather than nothing. Steve Webb also indicated in an interview on 16 January 2013 for Radio 4's Moneybox that this provision would be extended further (http://news.bbc.co.uk/1/shared/spl/hi/programmes/money_box/transcripts/money_box_live_16_jan_13.pdf).

[8] As shown in Chart 6.1 of Department for Work and Pensions (2013), "Single tier pension impact assessment", http://dwp.gov.uk/docs/single-tier-pension-impact-assessment.pdf.

[9] See, for example, Chart 3.1 of Department for Work and Pensions (2013), "Single tier pension impact assessment", http://dwp.gov.uk/docs/single-tier-pension-impact-assessment.pdf.

[10] See Office for Budget Responsibility (2012), *Fiscal Sustainability Report: July 2012*, http://budgetresponsibility.independent.gov.uk/fiscal-sustainability-report-july-2012/.

the last few years that have increased the current and future cost of support for pensioners—in particular, the introduction of the BSP triple lock.

Impact on Women and People with Caring Responsibilities

24. Those who had periods of caring prior to 2002 will benefit from retrospective crediting of these periods. For those reaching SPA after April 2010, periods of caring prior to 2002 are credited towards the BSP but not towards SERPS, whereas under the proposals they will be credited with 1/35th of the single tier pension. However, people with periods of caring in the future would receive lower state pension accrual under the single tier system than they would under the current system.

Impact on the Self-employed

25. Those who have had periods of self-employment in the past (or will have some in the future) and have not (or will not) accrue at least £144 per week of state pension income from other periods of contributions during their lives will gain from these reforms. This is because will be able to build up full entitlement to the single tier pension, whereas under the current system they may only get the BSP (Basic State Pension). Overall it seems likely that the (historically and future) self-employed will gain from the proposed reforms.

26. However, if someone is self-employed for only a short period of time, they may not gain, as they might in any case be able to accrue a state pension worth more than the single-tier level through other types of contributions during their lives. For example, someone entering the labour market in 2012, who had at least 24 years of earnings at the LEL or caring for a child or sick or disabled adult, would receive a pension under the current system at least as high (in present value terms) as that under the single-tier. Such a person would not gain from the more generous crediting arrangements for periods of self-employment suggested in the Pensions Bill.[11]

27. One factor that would influence the extent to which the self-employed gain from the proposed reforms, is whether National Insurance contributions for this group are also increased in recognition of the fact they are being promised higher state pension entitlements. Even under current policy, on average, the lower contributions made by the self-employed are less than offset by lower benefits received.[12] An increase in benefits with no corresponding increase in contributions would make the disparity even greater. However, this issue is to be decided by the Treasury and is not mentioned in the draft Pensions Bill.

Impact on Future need for Means-tested Benefits

28. Two components of the proposed reform will affect means-tested benefits; first, the single-tier pension will change the generosity of non-means-tested contributory benefits. Second, removing the PCSC will change the structure of means-tested benefits, reducing the maximum income level at which one can still be entitled to the Pension Credit.

29. In the long-run the single-tier pension is likely to reduce state pension income relative to income under current rules for most people. On its own this should *increase* future reliance on means-tested benefits (not only Pension Credit but also Housing Benefit (HB), and Council Tax Benefit (CTB). However, removing the PCSC reduces the maximum income at which one can receive the Pension Credit, which on its own should *reduce* entitlement to means-tested benefits.

30. Under the current rules someone turning 16 in 2012 would require 20 years of S2P credits from 2012 plus full BSP entitlement (ie 30 years of contributions) in order to have enough state pension income to be ineligible for the PCGC (Pension Credit Savings Credit) at SPA, and they would need a full BSP plus 27 years of S2P to get income above the PCSC upper threshold at SPA.[13] This compares to 35 years of contributions to the single tier pension being required to get above the PCGC level under the proposed system.

31. However, the "windfall" gains for those who receive retrospective credits for periods of caring or self-employment should boost retirement incomes for some people and thereby reduce the need for means-tested benefits in the short-run.

Impact on Incentives to Save

32. The single-tier reforms coupled with the abolition of PCSC have a complicated effect on incentives to save, which differs across cohorts and across individuals within the same cohort.

33. For earlier cohorts (who are already close to retirement), the windfall gains to some people resulting from the retrospective credits will probably have little overall effect on their retirement saving, as they will already have made most of their retirement saving decisions. For gainers in later cohorts—including the self-employed—the increased state pension entitlements on their own would tend to reduce the incentives to save

[11] This assumes a life expectancy of 79 for a 16 year-old in 2012, and assumes that the BSP and single tier pension are uprated in retirement with earnings rather than including the triple-lock ratchet assumption.

[12] HM Revenue and Customs estimates the net cost to the government of reduced NI contributions for the self-employed was £1.5 billion in 2009–10. See page 456 of Adam *et al* (2011), *Tax by Design: The Mirrlees Review*, Oxford: Oxford University Press.

[13] These figures assume that years of S2P are accrued continuously from the age of 16 onwards.

privately for retirement. Conversely, the lower state pension income implied for most members of later cohorts will—on its own—increase incentives to save privately for retirement.

34. The abolition of PCSC will have an ambiguous effect: for those who would otherwise have been eligible for only PCSC, its abolition will increase the incentive to save (as the marginal withdrawal rate of this benefit for a given increase in private retirement income is changed from 40% to 0%); for those who would have been eligible for both PCSC and PCGC, the abolition of PCSC will decrease the incentive to save (as the marginal withdrawal rate of this benefit for a given increase in private retirement income is changed from 40% to 100%).

35. As an example of the former group: someone retiring in 2040, with 30 years of contributions to the BSP and SERPS/S2P would receive £135.65 per week of state pension income and (on the basis of this income) would be eligible for both PCGC and PCSC under current legislation. This person would face a 40% withdrawal rate on private income above this level.[14] Under the single tier system, with the abolition of PCSC, this person would instead receive just £123.43 per week of state pension income and would still qualify for PCGC—facing a 100% withdrawal rate on private income.

36. As an example of the latter group mentioned in paragraph 34: someone reaching SPA in 2040, with 35 years of contributions to the BSP and S2P would receive £144.15 per week of state pension income and would be eligible, under current legislation (on the basis of this income), only for PCSC (which would provide an extra £8.52 of weekly income). This person would face a 40% withdrawal rate on private income. Under the single-tier system, with the abolition of PCSC, this person would instead receive just £144 per week of state pension income and would no longer qualify for any Pension Credit—thus they would face a 0% withdrawal rate of this means-tested benefit.

37. In the long run, introducing the single-tier pension will reduce levels of state pension income, while the abolition of PCSC will reduce the numbers qualifying for some form of means-tested benefit. Overall this should increase incentives to save privately for many people, while reducing the incentives for a residual group (of mainly very low lifetime income people) who will be left facing a 100% withdrawal rate of PCGC. The lower state pension income could, however, increase the likelihood that individuals will qualify for other means-tested benefits, such as HB and CTB.

38. Aside from the purely financial incentives to save, one might also expect that a pension reform that gives greater certainty would affect savings behaviour. However, the direction of this effect is theoretically ambiguous. On the one hand, greater clarity may increase saving if people become aware that they will receive less state pension income than they had previously anticipated or if greater clarity helps overcome some inertia in individuals' saving behaviour. On the other hand, if people incorrectly expected a lower state pension income than they were in fact going to get, they may have been "over saving" and so could reduce their saving rate in response to greater clarity and more information. Similarly, if risk averse individuals perceived uncertainty around the amount they would get, they may reduce their saving in response to greater certainty as the downside risks are reduced. To our knowledge no evidence exists to suggest which of these effects predominates.

39. While this reform would represent a welcome simplification of current policy, this is one of many pension reforms over the last few decades that have claimed to be the last radical overhaul. Individuals might see this "final" tweak as yet more evidence that what they will receive from the state in retirement can and may well be further changed before they get there—this could increase incentives to save privately. However, it is perhaps more plausible than usual that the latest proposals will prove to be the last for a while: first, because they are moving in the same direction as the reforms implemented in the last parliament; and, second, because a simpler system may prove to be more robust.

Acknowledgements and Disclaimer

40. We are grateful to the Joseph Rowntree Foundation for providing funding for a programme of work at IFS entitled "The outlook for living standards and poverty in later life", on which this analysis is based. The views expressed and any errors are the authors' alone.

15 February 2013

[14] This individual works continuously from 1989, earning SERPS entitlement between 1989 and 2001 inclusive based on average male earnings, and then at the level of the LET from then on. Average earnings are taken from the ONS, http://www.ons.gov.uk/ons/about-ons/what-we-do/FOI/foi-requests/labour-market/average-gross-weekly-earnings-in-1953/average-gross-weekly-earnings-1938—2011.xls.

Written evidence submitted by the Institute of Directors

Ahead of the above session, I thought it might help the Committee if I noted our high-level views on the White Paper and the Draft Pensions Bill.

1. We are very supportive of the move to a flat-rate basic state pension, and have argued for such a policy development for some time. In abolishing the State Second Pension and contracting out, we recognise that there will be some "losers", but we believe there will be many more "winners", and that the prize of a simple, clear and comprehensible state pension system is worth the sacrifice.
2. We also support acceleration of the schedule to bring the state pension age up to 67. Rapid and continuing improvements in longevity threaten the sustainability of the state pension system if we do not raise state pension age and we think the mechanisms proposed in the Bill for continuous review of this age are prudent.
3. We always expected that these proposals would be revenue "neutral", but it would appear to us that there will be, in fact, dividends to the public purse from this exercise, possibly quite substantial ones. Whilst recognising that savings need to be made, we would welcome any help that could be provided to employers, and employees, in contracted out Defined Benefit pensions. They will lose the contracting out rebate and will be looking at increased national insurance bills.
4. We regret that a number of future pensioners with inadequate National Insurance (NI) records will continue to use the existing means tested retirement income regime, decreasing over time. This will preserve a benefit architecture, and the cost of staff to serve it, which will have gone for the vast majority of people. We wonder what the cost of paying everyone eligible the guarantee credit level of £142.70 per week might be, and what the savings might be in thus doing away with means testing altogether.

18 February 2013

Written evidence submitted by the National Association of Pension Funds

About the NAPF

The National Association of Pension Funds (NAPF) is the leading voice of workplace pension provision in the UK. We represent some 1,300 pension schemes from all parts of the economy and 400 businesses providing essential services to the pensions industry. Ten million working people currently belong to NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from those schemes. NAPF member schemes hold assets of some £900 billion, and account for over one sixth of investment in the UK stock market. Our main objective is to ensure the security and sustainability of UK pensions

Executive Summary

The NAPF warmly welcomes the Government's proposal to simplify the current complex state pension system in the UK. The NAPF has lobbied for a simpler flat rate state pension for a number of years and feels that the proposals put forward in the Single-Tier White Paper and the Draft Pensions Bill highly complement our recommendations for reform.

The NAPF welcomes the proposal for a state pension that is set at a level above means tested benefits and is uprated by earnings. It also agrees that, as is the case with the current system, there should be a maximum qualifying period to receive the full state pension. The state pension should be available to individuals based on their own National Insurance record. The new system must be simple, clear and transparent—and one which underpins automatic enrolment and the Government's interest in encouraging a culture where people save for the future.

In order for the reforms to be cost neutral and in order for the transition to the new system to be clearer and less complex, the NAPF recognises that there will be some pensioners who will not benefit from the new system. This includes those future pensioners who will reach State Pension Age before the implementation date and those with higher incomes who have already built up higher entitlements to the additional state pension who will not receive a higher rate of pension from the State under the reforms. We welcome the provisions in the White Paper that provide those who were previously contracted out of the State Second Pension or SERPS with the opportunity to continue to build towards the full single-tier rate until they reach State Pension Age.

The NAPF has always recognised that the introduction of a single-tier state pension would result in the end of contracting out of State Second Pension/SERPS and the National Insurance rebate, and has been in regular contact with the Department of Work and Pensions (DWP) on this issue. The NAPF's Annual Survey for 2012 indicated that 83% of DB schemes open to new accruals were still contracted out. The NAPF welcomes provisions in the Draft Pensions Bill that seek to ensure that employers and schemes are able to administer these changes and the transition to a new system in the most cost effective manner, avoiding where possible placing additional burdens on those employers still offering a DB scheme to their workers.

The NAPF welcomes the Government's proposal to introduce a limited override that allows employers to make changes to Defined Benefit schemes with contracted out members, letting them make up the loss of the National Insurance rebate available under the current regime. The NAPF strongly encourages the Government to consult on the details of how the override will be structured and applied, particularly as a number of employers could be exempt from the override because of the contractual arrangements they have in place with workers and/or because they may have additional costs to take into account if contractual arrangements need to be changed.

Introduction

1. The UK has one of the most complex state pension systems in the world. Currently the state pension is made up of a Basic State Pension which has one set of rules and is based on National Insurance Contributions (NICs) and an additional pension (the State Second Pension) which has another set of rules and is linked to earnings and caring responsibilities, among other things. This additional pension has been changed a number of times over the years, and the option to contract out of it, and for employees and employers to receive a National Insurance rebate, makes it more difficult for individuals to understand what they can expect from the state in retirement. Means-tested benefits and other additional age related benefits and tax allowances add a further layer of complexity.

2. The NAPF has for years called for a simpler flat rate foundation pension that gives a solid floor from which people can build their retirement on, knowing with more certainty and clarity that it pays for them to save. In our 2010 report *Fit For the Future: NAPF's Vision for Pensions*[15] we laid out our recommendations for what this pension would look like and how the transition to the new system would work.

3. The DWP's White Paper, *the single-tier pension: a simple foundation for saving*[16] sets out the Government's proposals on state pension reforms which build on the recommendations we put forward. The White Paper calls for a single-tier pension that is similar to our proposal for a flat rate foundation pension; at an amount that allows future pensioners to not have to rely on means tested benefits; available based on each individual's National Insurance record; and one where workers are encouraged to stay auto-enrolled into their workplace scheme.

4. The NAPF is well aware that the proposals for a single-tier state pension will result in the end of Contracting Out and the raft of regulations and policies that interact with it. The Government needs to ensure that the costs for employers and schemes that result from state pension reform are minimised, and we welcome the Government reviewing the accompanying regulations to ease the burdens on those running pension schemes. In this respect the NAPF will be responding to the Government's consultation on bringing in an override that applies to Protected Persons Regulations. The NAPF believes that transitional arrangements need to afford employers and trustees the time and flexibility to implement the proposals smoothly and in line with their own timetables for reviewing scheme arrangements.

5. The NAPF recognises the difficult task ahead for the Government in implementing the proposals and transitioning over from the old to the new system.

6. The NAPF in the next sections lays out its comments and concerns on the various elements of the single-tier system and the transitional arrangements that are being proposed by the DWP and as these changes affect NAPF members and the pensions landscape in the UK.

Impacts on DB Pension Schemes and Employers

7. The NAPF recognises that the introduction of the single-tier state pension will result in the ending of contracting out and has made recommendations to the DWP to make sure that the transition for schemes is as smooth as possible. This includes giving those running DB pensions schemes enough time to make changes to their benefits in their normal valuation cycles (which run over a three year cycle in line with the Pension Regulator's approach to funding valuations) so they do not have to incur excessive additional costs and so that the risks of further DB scheme closures are minimised. Whilst many of our members tell us they are likely to consult with scheme members before making changes to their schemes, we agree that a statutory override is necessary for those employers that may need to make changes without member and/or Trustee consent to recoup the amount lost as a result of the end of the rebate.

8. Employers currently receive a National Insurance rebate in exchange for the provision of higher benefits for the contracted out employees who are a member of occupational pension scheme at their workplace. This rebate will end when the proposed state pension reforms are implemented. All employers with DB schemes with active members who are currently contracted out will be affected by this change. The NAPF's 2012 Annual Survey shows that 83% of DB schemes open to future accruals were still contracted out.

[15] NAPF, *Fit the Future: NAPF's Vision for Pensions at http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0123_Fit_for_the_future_NAPFs_Vision_for_Pension_0310.aspx.* March 2010

[16] Department for Work and Pensions, *the single-tier pension: a simple foundation for saving,* http://www.dwp.gov.uk/docs/single-tier-pension.pdf, January 2013

9. Employers will incur significant costs associated with contracting their employees back into the full state pension and making changes to their schemes. This includes:

— Actuarial and legal advice costs to review the structure of scheme benefits and changes that would be required to offset the loss of the rebate (where the actuarial costs will be higher if additional valuations need to be undertaken outside of the usual cycle or where a scheme actuary is unable to support the work of the employer with respect to the override);

— Administrative/HR costs associated with the ending of the rebate, including the costs of consulting with affected employees and making changes in employee contribution levels where applicable;

— Further legal advice costs where certain provisions need to be considered including protected persons (these are already being incurred by some of our members) or where contractual arrangements need to be considered; and

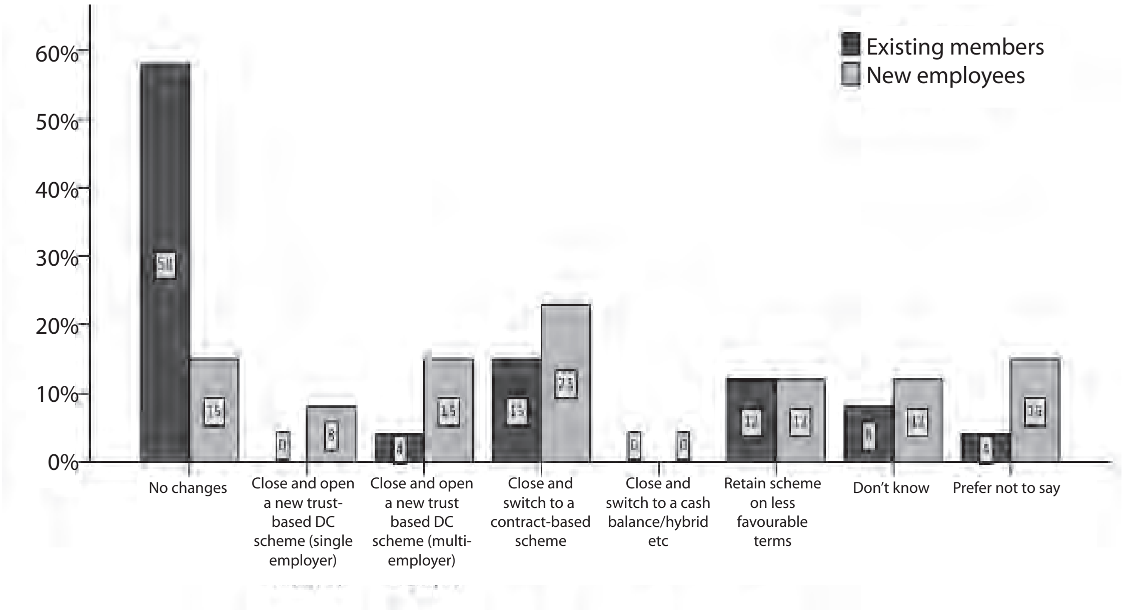
— Communication costs for providing information to all affected employees and responding to any queries they may have.

10. It is critical that the proposed reforms do not damage good existing pension provision. Additional expenses to employers as a result of the Government's proposals are likely to have a negative impact on DB schemes as an increasing number of employers are closing DB schemes to new members (but open to future accruals from existing members) or closing DB schemes altogether. The NAPF's latest Annual Survey, carried out in Autumn 2012, found that only 13% of private sector DB schemes were still open to new members, and 55% were closed to new members but open to future accrual

11. The following figure shows that one in five NAPF members (of the 13%) who responded to questions about whether they expect to make changes to their DB scheme in the next five years will close their DB scheme to current members and switch to a Trust or Contract based DC scheme instead. 12% expect to retain their DB scheme but on less favourable terms for existing members.

Figure 2

SCHEME EXPECTED CHANGES TO (FULLY) OPEN PRIVATE SECTOR DB SCHEMES



12. In relation to these reforms, the NAPF has lobbied for a statutory override that allows schemes and employers to make necessary changes in response to the end of contracting out and the National Insurance rebate. We therefore warmly welcome the necessary power in the Draft Pension's Bill allowing employers to override scheme rules in order to make up for the loss of the rebate only, adjusting scheme rules as specified in Schedule 14 of the Draft Bill—that is the power to increase employee contributions and/or to alter the future accrual of benefits but only up to the amount of the loss of the current National Insurance rebate. The override should not extend to making changes to benefits already accrued by scheme members and should only apply to future accruals.

13. Recognising that the current level of rebates are not necessarily actuarially fair for all schemes, and due to the increasing costs of regulation and red tape over time, some employers may wish to go further than this when reviewing their scheme benefits for the purposes of abolishing contracting out.

14. It is important that the Bill includes powers to introduce Regulations where the effect of contracting out is likely to be more fully understood once schemes start making adjustments to benefits and/or where exceptional circumstances need to be taken into account as they may otherwise cause scheme or consumer detriment.

15. The NAPF has previously argued for the Government to ensure that any override is effective for a minimum of five years as scheme triennial valuation cycles are long and expensive. The NAPF estimates that the cost of a valuation is between £50,000—£100,000 for small and medium sized employers and about double for large employers. It would be most cost effective if schemes were allowed to make any adjustments to benefits in a scheduled valuation rather than having to undergo another valuation and review for the sole purpose of making adjustments in relation to the ending of contracting out. Any override should only exist for a limited period of time. Based on our discussions with members, NAPF believes that this should be no less than five years. The NAPF therefore welcomes the Government's proposal to provide a five year period in which the override can be used, starting from the date of implementation of the new reforms (expected to be no earlier than April 2017). Schemes are more likely to start bearing the costs of ending contract out once the Bill has received Royal Assent and should be provided with the power to override rules starting from this date if they are to make adjustments that take into effect from the date of implementation.

16. Other issues that arise in relation to the ending of contracting-out include:

— *Reconciliation of GMPS and provisions for Multi-Employer Schemes and where Guaranteed Minimum Pension (GMP) provisions apply.* These calculations are extremely expensive and because effected schemes will be undergoing the process at the same time, this will have a knock on effect on HMRC's workload as well.

— *Schemes rules that require member consent.* There may be scheme rules that stipulate that member consent is required before any adjustments can be made. Such circumstances should be covered by the override.

— *Employment contracts that stipulate the rights to pension benefits for a given employee.* The override may need to be extended to such circumstances to ensure that employers do not have to take on additional costs due to the Government's proposals.

17. Where schemes provide "bridging pensions"—therefore where members get a higher income if they retire before reaching State Pension Age—increases to the value of the single-tier pension compared to the basic State Pension will mean that schemes have to pay higher incomes to eligible members who exercise these rights. The Government will need to ensure that it takes these technicalities into account in the regulations it sets out for schemes.

18. Offsets applied to definitions on pensionable pay. According to our 2012 Annual Survey, 32% of NAPF members apply some form of offset and 9% of NAPF members use an offset explicitly linked to the current Basic State Pension. They may experience difficulties as the current system is phased out.

19. The Government needs to address the issues highlighted above and, through consultations with schemes, introduce appropriate regulation and legislative provisions.

20. The Government must support employers and schemes on the extensive communication material that will need to be provided to members affected by the end of contracting out.

Impacts on Individuals

21. The current state pension system is far too complex. A Basic State Pension coupled with a State Second Pension, which until 2002 was the State Earnings Related Pension (SERPS), creates two completely different sets of rules and entitlements for individuals to try and understand. The option to contract out of the State Second Pension, now only available to members of DB schemes, makes it even more difficult for future pensioners to predict with any certainty their future retirement income from the State. The DWP estimates that 80% of those who reach State Pension Age in the next 20 years will have been contracted out of additional state pension at some point in their working lives.[17] Reflecting this complexity, only 28% of respondents to NAPF's October 2012 Workplace Pension Survey were confident that pensions would give them enough in retirement.

The NAPF believes that the state pension should give people a solid base from which to build their savings for retirement. People need to have a clear idea of what pension they can expect from the State and the rules that apply to accruing a full state pension. This is particularly important as an estimated five–eight million people will start saving or will save more into a private pension.

22. As the solution to this, for a number of years the NAPF has been arguing for a flat rate foundation pension that would be available to all individuals with a given number of qualifying years of National Insurance Contributions. The flat rate foundation pension would be set at an amount that results in a majority of future pensioners not having to rely on means tested benefits. A survey conducted by the NAPF in June 2011 found that people would save £60 more a month into their workplace pension if they were guaranteed £140 a week in state pension.[18]

[17] Department for Work and Pensions, *the single-tier pension: a simple foundation for saving*, http://www.dwp.gov.uk/docs/single-tier-pension.pdf, January 2013

[18] Populus poll commissioned by the NAPF, conducted between 3–5 June 2011

23. In 2011 the NAPF commissioned research from the Pensions Policy Institute[19] to assess the impact of a single tier state pension based on the Government's initial proposals[20]—finding that the number of pensioners relying on means tested benefit would decrease from 4.4 million to 0.8 million by 2055 and that by this time 11 million pensioners would have a higher household income as a result of the reforms.

24. The NAPF's research also showed that such reforms would be broadly cost neutral. The NAPF recognises that some future pensioners would lose out under the Government's latest proposals for the single-tier system, compared to if the current system were rolled forward. Those who stand to gain from the reforms are more likely to be on lower incomes, women, carers and those who are self-employed. These are the same group of people who would benefit most from a solid floor in the form a higher state pension on which they can build their workplace pension under auto-enrolment and receive a decent income in retirement.

25. The NAPF has called for, and strongly supports the Government's proposal for a single-tier amount that is set above the means tested level for state benefits. Future pensioners will be far more confident that the State will not penalise them for their private savings.

26. As stated in the Draft Bill, the proposed single-tier state pension must be uprated to earnings, at a minimum, to ensure that confidence in the pension does not erode over time and to maintain the link that lifts the single tier over the value of means tested benefits.

27. The NAPF supports the Government's proposal to set the maximum number of years required to earn a full state pension at 35 years. 48% of respondents to NAPF's Workplace Pensions Survey in late 2012 stated that they would work past the current State Pension Age, with two thirds saying they cannot afford to retire at that age and a third expecting to work for between four to six years. An increasing number of people will have longer work lives and that a higher single tier state pension that clarifies the amount of state pension future pensioners can expect to receive will help many better prepare for their retirement years. 35 years strikes a reasonable balance between the current basic state pension (30 years for the full amount) and the State Second Pension (currently 49 years for the maximum amount and rising in future with State Pension Age).

28. The NAPF recognises that the de minis proposed by the Government will affect part-time and foreign workers and anyone who is unable to accumulate more than seven—10 years of National Insurance Contributions. The NAPF encourages the Government to bring in a de minimis that is low and does not penalise those on low income.

29. The NAPF supports the Government's proposal to ensure that future pensioners have a responsibility to build up their own state pension. However, we would encourage the Government reviewing whether the same principles can be extended to those employers still offering a DB pension scheme who still face mandatory requirements within the legislation to offer spouse and dependent benefits.

30. Any valuations of state pension accrued on the implementation date should ensure that people are not worse off under the new system compared to what they had accrued under the old system.

31. The DWP's White Paper estimates that a majority of people will be better off under the proposed single tier system. This includes people who do not qualify for State Second Pension currently, including those who are self-employed, the unemployed, those who earn less than the Lower Earnings Limit, and those who are in full time training. Women with caring responsibilities and/were on and off of work for a number of years will benefit as well. These are people who may not be able to accumulate enough private pension and would require means tested support from the State otherwise.

32. Those who have been contracted out of the additional state pension at some point in their life (or their whole working life) will have the opportunity to build up additional contributions towards their state pension until they reach State Pension Age and up till the single tier amount.

33. Those with higher earnings and who are eligible to receive additional pension under the current system, where accrued rights for the State Second Pension are still linked to earnings, will no longer be accumulating higher state pension entitlements for every year worked than those on lower earnings. Under the proposed system they would build up future entitlements to the single-tier pension as anyone else, up to a maximum of 35 years of National Insurance Contributions.

34. Current and future pensioners who reach State Pension Age prior to the implementation date, expected to be April 2017, will not benefit from the new system as they will have retired under the current system. This includes women who will reach State Pension Age prior to April 2017 and before men of their age who still have a higher State Pension Age and have to wait longer before they can draw an income from the state. These women will receive State Pension Age for at least two years longer than their male counterparts and have a higher life expectancy in general—already receiving state pension for a longer period of time on average.

35. It is also important that the transitional period, which starts from 2017 and until every eligible person is covered fully by the new system, is as uncomplicated and transparent as possible. The more complexity is

[19] Pensions Policy Institute and the NAPF, *An Assessment of the Government's Options for State Pensions Reform*, http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/~/media/Policy/Documents/0188_An_assessment_of_the_Governments_options_for_state_pension_reform_PPI_NAPF_220811.ashx. June 2011

[20] Department for Work and Pensions, *A State Pension for the 21*st *Century*, http://www.dwp.gov.uk/docs/state-pension-21st-century.pdf. April 2011

introduced into the new system, the more difficult and expensive it will become to transition onto a new, clear and fairer state pension system.

Powers Awarded to the Secretary of State

36. The linkages between current state pension and private pensions are extremely complex and a substantial change in state pension will have a considerable impact on pension schemes and the systems they currently have in place. Some of the issues that pension schemes face might not become apparent until schemes start contracting members back into the state pension and review their scheme benefits and structures. The NAPF is supportive of the "Final Provisions" set out in the Bill which give the Secretary of State the power to make amendments to the Act where further regulations may need to be brought in to deal with the issues caused by changes in Government policy. We believe that such powers should only be used where circumstances warrant such changes and only after consultations with stakeholders affected by such changes.

22 February 2013

Written evidence submitted by the Pensions Policy Institute

Summary

I. This submission provides the PPI's written evidence to the Work and Pensions Select Committee inquiry into the Government's State Pension reform plans.

II. This submission contains initial PPI high level analysis, and considers:

— The impact that the proposals will have on specific groups of individuals.

— The future need for means-tested benefits and the potential impact on private pension saving.

— Implications of the ending of contracting-out of the State Second Pension.

— The impact on future levels of Government spending on state pensions and related benefits.

The impact that the proposals will have on specific groups of individuals

III. In general, individuals who would have qualified for relatively small amounts of State Second Pension (S2P) are most likely to gain from the implementation of the single-tier pension as set out in the White Paper. These include:

— Individuals who have already had career breaks, or low earnings, that were not well covered by SERPS or S2P credits.

— The self-employed.

— Individuals who have been contracted-out of S2P and have time to build-up more pension after the introduction date.

IV. All individuals will receive at least as much state pension as they would have got in the current system based on their National Insurance Contribution histories up to the point at which the single-tier pension is introduced. However, some individuals will build up lower state pension entitlements after the introduction of the single-tier pension than they would have done had the current system remained in place. These include:

— Individuals who would have built up high S2P entitlements.

— Individuals who may have been eligible for savings credit.

— Individuals with less than seven—10 qualifying years.

V. The reforms affect different age cohorts in different ways. Individuals who reach state pension age in the years just after the introduction of the reforms will be more likely to have lower state pension entitlements under the current state pension system, and so benefit from the proposed single-tier pension. Individuals reaching state pension age longer after the reforms are introduced are likely to have benefited from the introduction of S2P and so would have been more likely to have state pension incomes higher than the proposed single-tier pension level had the current state pension system continued.

VI. Some individuals who initially have lower state pension incomes under the proposed single-tier pension than under the current system, could have higher incomes than under the current system later in retirement. This is because all of the single-tier pension would be increased at least in line with average earnings, while in the current system only the Basic State Pension increases at least in line with average earnings. This makes it difficult to say who would definitively gain and who would definitively lose under the reforms, and to estimate how many gainers and losers there may be at any particular point in time.

VII. There will also be individuals who are not affected by the reforms, but who will feel that they have missed out by not being included in the reforms. One group who may be particularly affected in this way are women born between April 1952 and July 1953. Women in this cohort will have a State Pension Age under 65, meaning that they will reach State Pension Age before the illustrative implementation date of April 2017.

However, the male State Pension Age for men born between the same dates is 65, so men in this cohort will be eligible for the proposed single-tier pension. In 2010 there were around 450,000 women in this cohort.

The future need for means-tested benefits and the potential impact on private pension saving

VIII. By setting the illustrative level of the proposed single-tier state pension above the level of the Guarantee Credit (GC) element of Pension Credit, and removing the Savings Credit element of the Pension Credit for individuals reaching SPA after the single-tier pension has been introduced, the proportion of people over SPA eligible for Pension Credit is likely to be significantly reduced.

IX. However, even with the level of the proposed single-tier pension above the GC level, relatively high levels of means testing could remain in the future as a result of not all individuals qualifying for a full single-tier pension, some individuals having extra needs leading to higher Pension Credit entitlement, and continued eligibility to Housing Benefit and Council Tax Benefit

Implications of the ending of contracting-out of the State Second Pension

X. The introduction of a single-tier state pension will lead to the end of S2P, and as a result the ending of contracting-out from S2P. The ability to contract-out into a Defined Contribution (DC) pension scheme was removed in 2010, but it is currently still possible to contract-out into a Defined Benefit (DB) pension scheme. The ending of contracting-out from DB schemes will have impacts on both scheme members and scheme sponsors.

XI. Both members and sponsors of contracted-out pension schemes will need to pay higher National Insurance Contributions (NICs), and scheme members will receive higher state pensions in return. Some private sector scheme sponsors will reduce benefits, increase member contributions or some combination of the two rather than face increased pension costs.

XII. Public sector scheme sponsors will not be able to change the benefits paid by their schemes or the contribution levels and so face higher costs, although HMT will collect the higher NICs from public sector employers and so could choose to use these to offset the higher costs. Public sector pension scheme members will therefore receive higher state pensions and no reduction in pension scheme benefits.

The impact on future levels of Government spending on state pensions and related benefits

XIII. The DWP estimates that by 2060, under the proposed single-tier state pension system Government expenditure on state pensions and related benefits would be 8.1% of GDP, compared to 8.5% of GDP if the current system had remained in place. This implies that, on average, state pensions and related benefits will be less generous under the reformed system than under the current system.

XIV. However, these figures reflect only direct expenditure on benefits, and do not take account of all of the changes being made to the system. In particular the figures do not take account of the impact of the ending of contracting-out, which will also reduce the amount of pensioner income derived from pensions paid for by the state.

Introduction

1. This submission provides the PPI's written evidence to the Work and Pensions Select Committee inquiry into the Government's State Pension reform plans.

2. The Pensions Policy Institute (PPI) promotes the study of pensions and other provision for retirement and old age. The PPI is unique in the study of pensions, as it is independent (no political bias or vested interest); focused and expert in the field; and takes a long-term perspective across all elements of the pension system. The PPI exists to contribute facts, analysis and commentary to help all commentators and decision-makers to take informed policy decisions on pensions and retirement provision.

3. On 14 January 2013 the Government published a White Paper setting out its plans to introduce a new single-tier State Pension. The Government plans to introduce this new State Pension from 2017 at the earliest. It will be set at around £144 per week (in 2012–13 prices). The State Second Pension (S2P) will end, as will the current arrangements for defined benefit pension schemes to contract out of S2P and for lower National Insurance contributions to be paid by both contracted-out employees and their employers. The changes will not apply to people who are over State Pension Age when the new arrangements are introduced.

4. At the date of introduction of the single-tier pension, a "foundation" amount will be calculated for each individual, based on their entitlement built up under the current state pension system. This will be compared to the amount that the individual would have built up in the new single-tier system had it been in place. Individuals will then take forward the higher of the two amounts (adjusted for time spent contracted-out of the State Second Pension and SERPS) into the new system. If the foundation amount is higher than the new single-tier level, the amount above the single-tier level will be protected and paid on top of the single-tier pension.

5. This submission contains initial PPI high level analysis, and considers:

— The impact that the proposals will have on specific groups of individuals.

— The future need for means-tested benefits and the potential impact on private pension saving.

— The implications of ending contracting-out of the State Second Pension.

— The impact on future levels of Government spending on state pensions and related benefits.

6. The submission does not cover broader issues, such as the potential impact of the reforms on automatic enrolment, the potential long-term impact on overall incomes in retirement, the numbers of people with higher or lower state pension incomes at any particular point in time, or the potential impact on pensioner poverty. These issues, alongside the issues covered in this response, are likely to be covered in more detail in future PPI research.

7. A number of the final details surrounding the Government's State Pension reforms have yet to be finalised. For example, the date of introduction, the final level of the pension, the way in which the pension will be increased over time, and the number of qualifying years needed to receive any state pensions will all be decided in the next parliament. The White Paper uses illustrative details when analysing the reforms. The analysis contained in this submission is based on the White Paper illustrative details (unless otherwise stated).

The impact that the proposals will have on specific groups of individuals

8. The precise impact on individuals will be highly dependent on each individuals own circumstances, so it can be difficult to say definitively who would gain and who would lose from the proposals to implement the single-tier pension as set out in the White Paper.

9. But it is possible to identify some broad groups, or specific characteristics, that might be more likely to result in higher or lower state pension incomes under the single-tier system than under the current system.

Groups who are likely to have higher state pension income under the reforms than under the current system

10. In general, individuals who would have qualified for relatively small amounts of State Second Pension (S2P) are most likely to gain from the implementation of the single-tier pension as set out in the White Paper. These include:

— Individuals who have already had career breaks, or low earnings, that were not well covered by SERPS or S2P credits

— The self-employed

— Individuals who have been contracted-out of S2P and have time to build-up more pension after the introduction date

Individuals who have already had career breaks or low earnings that were not well covered by SERPS or S2P credits

11. There are currently two main components to UK state pensions—the Basic State Pension (BSP) and the State Second Pension (S2P). S2P was introduced in 2002 as a replacement for the State Earnings Related Pension Scheme (SERPS).

12. Before the introduction of S2P in 2002, it was only possible to qualify for SERPS through earnings, and the amount of benefit built up was linked to earnings—the higher the earnings the higher the benefit. This meant that although individuals who were not in work could build up entitlement to the Basic State Pension through credits awarded, for example, for caring or being in receipt of certain benefits,[21] they would not build up any SERPS. Individuals with low earnings would only build up low SERPS entitlements.

13. When S2P was introduced in 2002 individuals with caring responsibilities or receiving disability benefits began to receive credits for S2P, and low earners received a boosted S2P entitlement, broadly equivalent to double the benefit someone earning £14,700[22] would have received in SERPS.

14. However, many individuals who are yet to retire will have had career breaks and/or low earnings before 2002, and will not have fully benefited from the introduction of S2P.

15. Some individuals who will reach State Pension Age after the proposed single-tier state pension is implemented may already have retired, and so will not build up further qualifying years. However, even if an individual does not have enough qualifying years for a full single-tier pension, they would get at least the same state pension as in the current system, and possibly a higher state pension under the proposed single-tier state pension system if they have few years of SERPS/S2P entitlement.

[21] See PPI (2012) *The Pensions Primer: A guide to the UK pension system*. Although at the time caring was recognised by a system called Home Responsibilities Protection (HRP) which reduced the number of qualifying years needed rather than increased the number of qualifying years achieved, for individuals yet to reach state pension age years of HRP have been converted into credits.

[22] In 2012–13. See PPI (2012) *The Pensions Primer: A guide to the UK pension system* for further details.

The Self-employed

16. Another group who will have lower S2P entitlements, and will therefore be more likely to gain from the implementation of a single-tier state pension, are the self-employed.

17. Periods of self-employment do not build up entitlement to S2P (or to SERPS pre-2002), in recognition of the lower NI contributions paid by the self-employed. So individuals with long periods of self-employment may have little state pension above the level of the BSP.

18. As self-employment will qualify for the proposed single-tier state pension, individuals with periods of self-employment are therefore more likely to get a higher state pension under the reformed system than under the current system.

Those who are contracted out and have time to build-up more pension after the introduction date

19. One group of individuals who, perhaps unexpectedly, will do well from the proposed single-tier state pension system are some of those who have not built up entitlement to S2P because they have been contracted-out of S2P.

20. Since the introduction of SERPS in 1978 it has been possible to contract-out of the additional pension part of the state pension system (not the Basic State Pension). In essence this meant that individuals paid lower National Insurance Contributions (NICs) (or received a rebate on contributions) but did not qualify for SERPS, or from 2002 S2P.[23] Instead, they had to be members of an employer's pension scheme that provided benefits at least as good as those provided in SERPS or S2P, or have the National Insurance rebates invested into a qualifying pension scheme.[24]

21. Under the White Paper proposals, people who have been contracted-out of SERPS and S2P will be treated as having built up less state pension rights than similar individuals who have not contracted-out. As part of their "state" pension will be delivered by a private pension scheme, the value of this amount will be deducted from their "foundation" amount at the time that the single-tier pension is introduced.

22. This means that an individual who has been contracted-out will have a lower foundation amount than an identical individual who has not been contracted-out. This is simply replicating what happens in the current system.

23. If these individuals are close to retirement, then the contracted-out individual will receive a lower single-tier pension than the not contracted-out individual. However, if these individuals are younger and have a number of years to go to retirement, the contracted-out individual may be able to build up more single-tier pension in the future than the not contracted-out individual, and both could end up with full single-tier pensions.

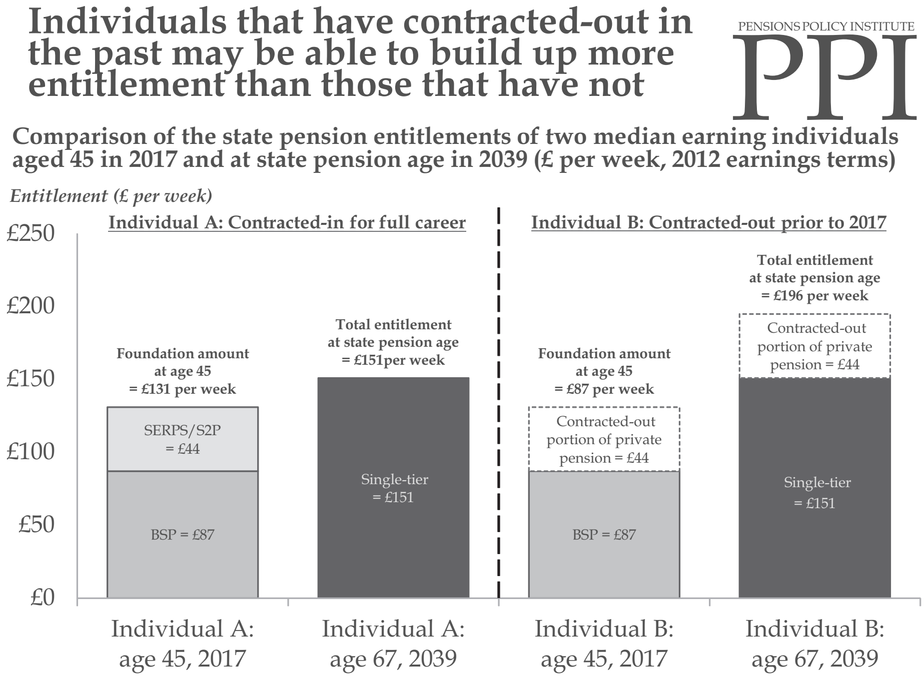
24. In this case, it could be argued that the individual who contracted-out has done much better than the not-contracted out individual. They receive the same single-tier pension. The individual who did not contract out has his SERPS/S2P incorporated into the single-tier pension but the contracted-out individual, who paid lower NICs, still receives the equivalent of his SERPS/S2P built up before 2017 through a private pension, in effect being paid on top of the single-tier pension.

25. Chart 1 illustrates this using the example of two median earning individuals, aged 45 in 2017. These individuals have identical earnings histories, but one has been contracted-out of SERPS/S2P for their entire working life, whilst the other has remained contracted-in. Both have higher entitlement under the current system in 2017 than if single-tier had been in place throughout their careers, so this becomes their foundation amount. However, the contracted-out individual has a lower foundation amount, reflecting the fact that he paid lower NICs and so part of his "state" pension is provided through his private pension.

[23] This is a simplification, as there are circumstances in which individuals can be contracted-out and still qualify for SERPS or S2P, but the principle is that all or some of the SERPS or S2P benefit is given up. See PPI (2012) *The Pensions Primer: A guide to the UK pension system* for further information.

[24] The option to have rebates invested into a qualifying pension scheme was introduced in 1989.

Chart 1[25]



26. By the time the individuals reach State Pension Age, both have enough qualifying years on top of their foundation amounts to reach the full single-tier pension level. However, the contracted-out individual will also still receive his contracted-out private pension, equivalent to the SERPS/S2P that he would have built up before 2017 if he had been contracted-in. The contracted-in individual does not receive this, as it was counted as part of his foundation amount.

Groups who are likely to have lower state pension income under the reforms than under the current system

27. It is important to note that no individual will lose any state pension rights that they have already built up. All individuals will receive at least as much state pension as they would have got in the current system based on their National Insurance Contribution histories up to the point at which the single-tier pension is introduced.

28. However, some individuals will build up lower state pension entitlements after the introduction of the single-tier pension than they would have done had the current system remained in place. These include:

— Individuals who would have built up high S2P entitlements.

— Individuals who may have been eligible for savings credit.

— Individuals with less than seven—10 qualifying years.

Individuals who would have built up high S2P entitlements

29. Individuals who would have built up high entitlements to S2P had the current system remained in place will get lower state pensions under the single-tier pension reforms as set out in the White Paper.

30. In the early years after the implementation of the single-tier pension, it will be individuals who have had high earnings in the past and continue to have high earnings after the implementation date who will see the largest differences in their state pension. Although the transitional arrangements mean that they will still receive all of the state pension built up before implementation, they will not be able to build up any further state pension.

31. However, over time, even relatively modest earners may initially get less from the single-tier state pension than they would have had had the current system continued. This is because in recent years the credit system and the boost for low earners has made S2P more valuable. Individuals reaching State Pension Age further in the future will have spent more time in the S2P system, and so will benefit more from it than individuals reaching State Pension Age in the next 10 to 15 years. They are therefore more likely to reach SPA with relatively high S2P, and therefore overall state pension, amounts.

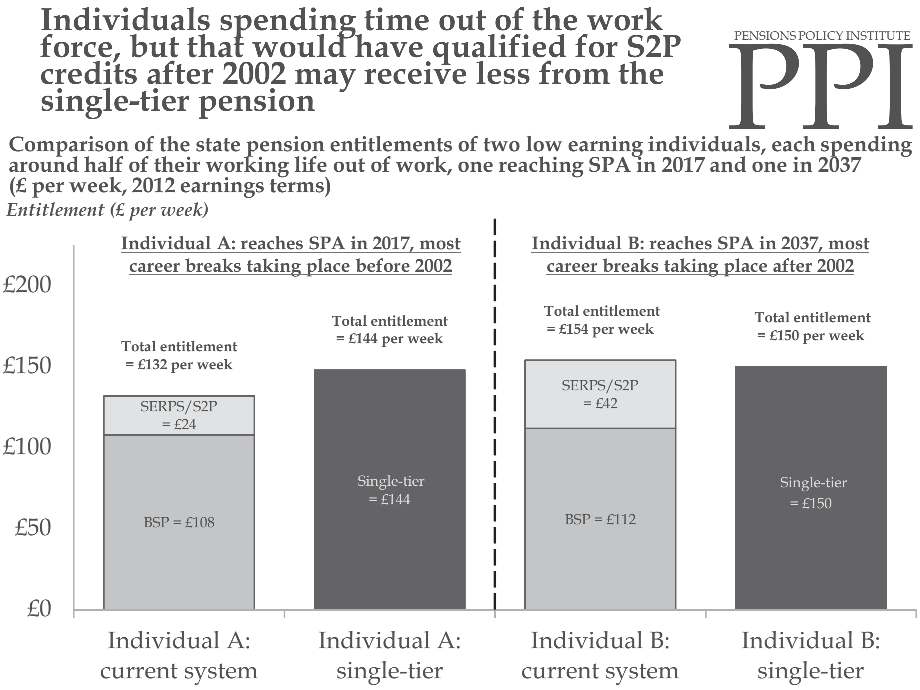
32. Chart 2 considers the potential outcomes at SPA under the current system and the single-tier for a hypothetical low earning individual that takes time out of the work equivalent to approximately half of their

[25] PPI Individual Model. As a simplification, it has been assumed here that the contracted-out portion of individual B's private pension is exactly equal to the entitlement that could have been accrued under S2P/SERPS. It has also been assumed that this amount is uprated in line with average earnings growth until SPA, as would have been the case with S2P/SERPS entitlement.

working life. During their time out of work, the individual is performing an activity, such as providing care for a disabled relative or child under 12 years old, which would qualify them for S2P credits after 2002. Prior to the introduction of S2P in 2002, however, the individual only qualifies for BSP when not in work.

33. The example shows two possible outcomes for this individual; in the first they reach SPA in 2017 having had the majority of their career before 2002, and they would receive a higher state pension under the single-tier pension system. In the second, their SPA occurs 20 years later and the majority of their career takes place after the introduction of S2P, and they would receive a higher state pension had the current system continued.

Chart 2[26]



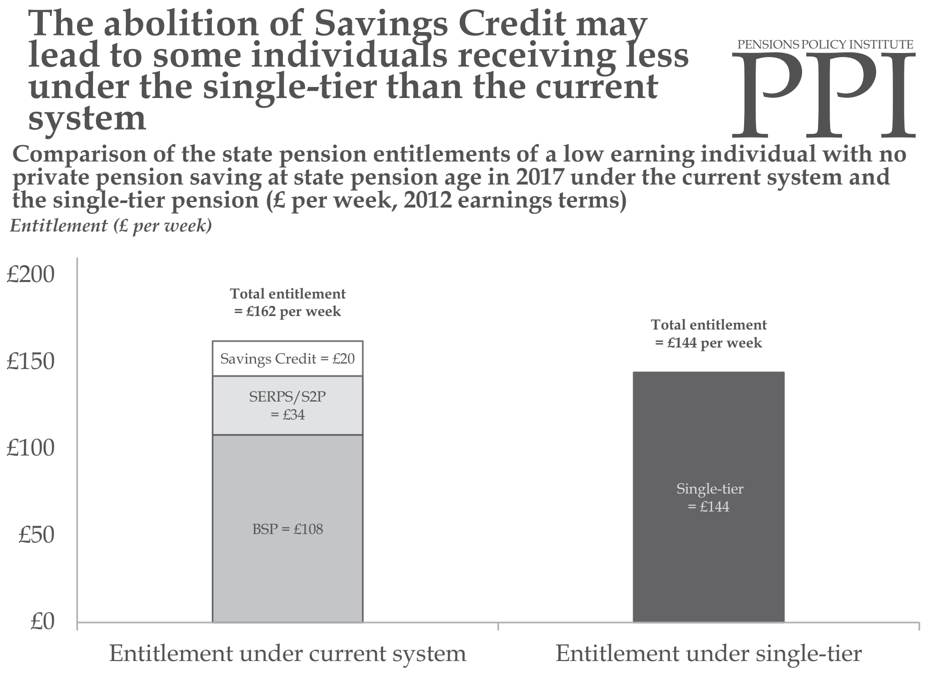
People who may have been eligible for savings credit

34. There will be some individuals who, even after the introduction of the single-tier pension, will have incomes only just above the Guarantee Credit level. In the current system they would have been entitled to receive Savings Credit. As part of the proposed reform package, Savings Credit will no longer be available for these individuals, and they may therefore receive lower retirement incomes that they would have done had the current system continued.

35. An example of this is provided in Chart 3, which considers a low earning individual reaching SPA in 2017, with state pension entitlement under the current system exactly equal to the Guarantee Credit threshold. This individual has no private pension saving and under the current system, would qualify for the maximum level of Savings Credit.

[26] PPI Individual Model

Chart 3[27]



Individuals with less than seven—10 qualifying years

36. Since 2010, an individual has only needed one qualifying year to receive any BSP in their own right. Before 2010, individuals needed to have enough qualifying years to qualify for at least 25% of the full BSP to receive any. The proposed requirement that individuals must have at least a minimum number of qualifying years in order to receive a pension is therefore a reversion to the situation in place before 2010.

37. Depending on the number of qualifying years chosen as the minimum level, the proposed system will be more or less generous than the pre-2010 system. If the limit is seven years, individuals will need 20% of the full amount to receive any pension. If it is 10 years, this rises to almost 30% of the full amount.

38. There are also other ways in which the proposed single-tier is less generous to this group than even the pre-2010 system:

- In the pre-2010 system, even if individuals did not have enough qualifying years to receive any BSP, all years of SERPS or S2P entitlement were paid. In the proposed single-tier system there is no SERPS or S2P equivalent.
- In the pre-2010 system individuals without any BSP in their own right could still receive BSP based on their partner's contribution records in some circumstances, or their partner could receive a higher pension in recognition of having a partner. The proposed single-tier system is based on individual entitlement, with no scope to take into account partners contributions.

39. So individuals with less than the minimum number of qualifying years will not receive any state pension under the new system, and will not be able to rely on a partner's contributions. If they are retiring in the UK they may, however, still be eligible for the Guarantee Credit.

Some individuals might have lower state pension income initially, but higher state pension incomes later in retirement

40. Even individuals who have a lower state pension at state pension under the single-tier state pension system as proposed in the White Paper than they would have if the current system may have a higher state pension later in their retirement.

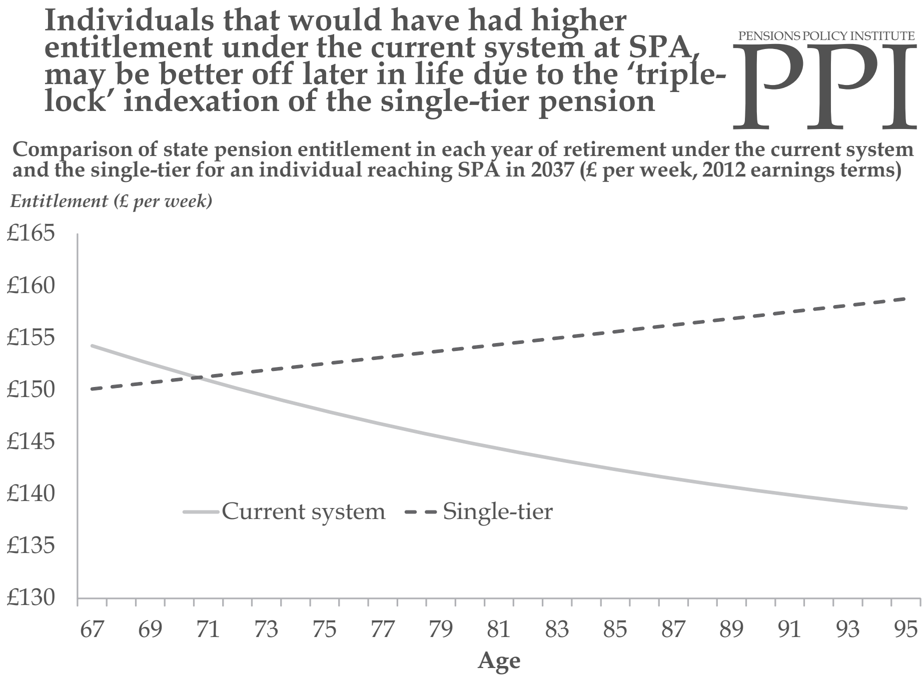
41. This is because all of the proposed single-tier pension will be uprated at least in line with average earnings (and potentially, as illustrated in the White Paper, in line with the triple lock of the higher of earnings, prices and 2.5%), whereas in the current system only the BSP is uprated by this amount.

42. Chart 4 provides a comparison of potential outcomes for an individual reaching their SPA of 67 in 2037 (the same low earner as used in Chart 2). At SPA, their state pension entitlement would have been £154 per week in 2012 earnings terms had the current system still been in place. Under the single-tier, however, their entitlement reduces to £150 per week in 2012 earnings terms.

[27] PPI Individual Model

43. Triple-lock indexation means that the single-tier pension becomes more generous than the individual's pension under the current system by the time they reach age 71. This happens because the individual's S2P/SERPS entitlement is uprated in line with CPI, which is never greater than the uprating applied under the triple-lock and on average assumed to be lower each year.[28]

Chart 4[29]



44. This makes it difficult to say who would definitively gain and who would definitively lose under the reforms, and to estimate how many gainers and losers there may be at any particular point in time. The PPI plans to investigate this, and other related issues such as the impact on pensioner poverty, in further analysis.

Individuals who reach State Pension Age before implementation of the reforms

45. There will also be individuals who are not affected by the reforms, but who will feel that they have missed out by not being included in the reforms. There is a "cliff-edge" to the policy which means that individuals who have already reached State Pension Age, or who reach it just before the implementation date for the reforms, are treated differently than those reaching State Pension Age just after the implementation date.

46. Cliff-edges are often a feature of state pension reform (there was a similar effect in April 2010 when the 2007 Pension Act reforms were introduced, which required only 30 qualifying years for a full pension rather than 39 for women and 44 for men).

47. One group who may be particularly affected in this way are women born between April 1952 and July 1953. Women in this cohort will have a State Pension Age below age 65, meaning that they will reach State Pension Age before the illustrative implementation date of April 2017. However, the male State Pension Age for men born between the same dates is 65, so men in this cohort will be eligible for the proposed single-tier pension. In 2010 there were around 450,000 women in this cohort.[30]

48. While this differential treatment of men and women of the same age has been part of the UK state pension system as long as there have been different state pension ages for men and women, the close proximity of the proposed implementation date to 2018 (when SPA is equalised for men and women) brings this different treatment into sharper focus. Delaying implementation until 2018 when SPA for men and women is the same would remove the differential treatment, but still would not mean that women born between April 1952 and March 1953 qualify for the single-tier pension.

The future need for means-tested benefits and the potential impact on private pension saving

49. One of the key aims of the single-tier state pension reforms is to reduce reliance on means-tested benefits in retirement. High levels of reliance on means-tested benefits—and particularly on Pension Credit, which

[28] The single-tier pension and the BSP portion of entitlement under the current system have been increased in line with a long-term triple-lock assumption of 4.96% per year. S2P/SERPS entitlement has been increased in line with a long-term CPI assumption of 2.00% per year. The actual timing of the single-tier pension becoming more generous in this scenario will depend upon the actual values of the relevant economic indices.

[29] PPI Individual Model.

[30] Based on ONS mid-2010 UK population estimates

provides basic income—risk undermining the policy of automatic enrolment if individuals perceive that being eligible for means-tested benefits means they would not gain significantly from saving in a pension. Currently 40% of pensioners are eligible for Pension Credit.

50. By setting the illustrative level of the proposed single-tier state pension above the level of the Guarantee Credit (GC) element of Pension Credit, and removing the Savings Credit element of the Pension Credit for individuals reaching SPA after the single-tier pension has been introduced, the proportion of people over SPA eligible for Pension Credit is likely to be significantly reduced.

51. The DWP estimate that by 2060 the proportion eligible for Pension Credit will be 5% under the proposed single-tier pension, compared to 10% if the current system remained in place. PPI has not yet produced independent estimates of the likely impact of the proposed single-tier pension on eligibility to Pension Credit, but DWP estimates of the proportion of pensioners eligible for Pension Credit under the proposed single-tier state pension appear to be broadly consistent with earlier PPI estimates based on the policy contained in the DWP Green Paper.[31] Although the White Paper policy differs from the Green Paper policy significantly in the short term, long term impacts are likely to be similar.

52. However, even with the level of the proposed single-tier pension above the GC level, relatively high levels of means testing could remain in the future. This is because:

— Not everyone will receive the full level of the single-tier state pension. The minimum number of qualifying years required for a full single-tier pension will be 35 compared to 30 for the current BSP. And more individuals will qualify for no state pension at all in the single-tier system than in the current system, because of the minimum requirement of between seven and 10 years to receive any pension and the loss of being able to receive a pension based on a partners contribution record.

— Some individuals with additional needs or responsibilities are eligible for higher levels of Guarantee Credit, through, for example, special premiums for people with disabilities or caring responsibilities. Under the proposed reforms individuals with these characteristics would still have a Guarantee Credit income level above the level of the single-tier pension.

— Eligibility for Housing Benefit (HB) and Council Tax Benefit (CTB) will still extend to incomes much higher than the single-tier pension level. Although this is arguably a different type of means-testing than Pension Credit (HB and CTB are to meet specific housing costs rather than for basic income) they can still result in a reduction in the value of private pension saving to individuals. PPI estimates based on the Green Paper proposals suggest that in 2050 up to a third of pensioners might still be eligible for at least one of Pension Credit, HB or CTB.

The implications of ending contracting-out of the State Second Pension

53. The introduction of a single-tier state pension will lead to the end of S2P, and as a result the ending of contracting-out from S2P. The ability to contract-out into a Defined Contribution (DC) pension scheme was removed in 2010, but it is currently still possible to contract-out into a Defined Benefit (DB) pension scheme. The ending of contracting-out from DB schemes will have impacts on both scheme members and scheme sponsors.

The impact on scheme members

54. Under the proposed single-tier state pension, DB scheme members will have to pay higher National Insurance contributions (NICs) (they currently pay an NI rate 1.4% lower than individuals not contracted out). In return, they will build up a higher state pension, as in the current system they only build up rights to the BSP, not S2P.[32]

55. There may also be changes to the contributions they pay to the DB scheme, or the benefit they receive from the DB scheme, or both, depending on how the scheme sponsor reacts to the ending of contracting-out.

The impact on scheme sponsors

56. The scheme sponsor will also have to pay higher NICs as a result of the ending of contracting-out (they currently pay an NI rate 3.4% lower than scheme sponsors not contracted out). In the current system lower NICs are designed to offset some of the contributions required to fund the DB scheme.

57. Scheme sponsors will then need to decide whether to:

— Retain the existing DB scheme benefits and contribution levels for the sponsor and employees, as well as paying the higher NICs. This would mean the scheme sponsor absorbing extra costs.

[31] PPI (2011) *An assessment of the Government's options for state pension reform. A PPI report for the NAPF.* Alhough DWP and PPI estimates of eligibility to Pension Credit under the single-tier pension are similar, PPI estimates suggest that eligibility to Pension Credit could be much higher than 10% if the current system continued.

[32] This is a simplification, as there are circumstances in which individuals can be contracted-out and still qualify for SERPS or S2P, but the principle is that all or some of the SERPS or S2P benefit is given up. See PPI (2012) *The Pensions Primer: A guide to the UK pension system* for further information.

— Retain the existing DB scheme benefits, but increasing member contributions to partially or fully offset the increased NICs, so sharing the extra costs with employees, or passing them on completely.

— Reduce the existing DB scheme benefits (or replace the scheme completely) and reduce sponsor contributions to partially (or fully) offset the higher NICs.

58. The approach taken is likely to vary between different scheme sponsors. DWP has indicated that they will introduce powers so that scheme sponsors can change scheme rules to allow for the ending of contracting-out without trustee consent, for a limited period of time and only to the extent that the changes offset the higher NICs faced by the scheme sponsor.

59. However, the DWP has also stated that these powers will only apply to private sector DB schemes, not those in the public sector. Public service pension schemes are not expected to change either benefit structure or contribution level in response to the ending of contracting-out.

60. Members of public service pension schemes will therefore pay higher NICs, receive a higher state pension, and continue to pay the contributions and accrue a DB pension as set out in the reforms currently going through Parliament.

61. Sponsors of public service pension schemes will face higher NICs, and no reduction in the contributions payable to the DB pension scheme. The higher NICs will be collected by HMT. The overall impact on the budgets of public service scheme sponsors will depend on whether HMT increases sponsors budgets by the amount of the higher NICs or not.

The impact on future levels of Government spending on state pensions and related benefits

62. The PPI is currently developing its modelling capability to be able to undertake a full evaluation of the potential cost and distributional implications of the proposed single-tier state pension. The current observations are based on the figures published by the DWP in the White Paper.

63. The DWP estimates that by 2060, under the proposed single-tier state pension system Government expenditure on state pensions and related benefits would be 8.1% of GDP, compared to 8.5% of GDP if the current system had remained in place.

64. This implies that, on average, state pensions and related benefits will be less generous under the reformed system than under the current system.

65. However, these figures reflect only direct expenditure on benefits, and do not take account of all of the changes being made to the system. In particular the figures do not take account of the impact of ending contracting-out.

66. In the current system, part of the state pension system is effectively pre-funded. Members and sponsors of DB schemes pay lower NICs (equivalent to a Government contribution to the scheme), and in return scheme members receive lower state pensions in future. In 2012–13, more than £6 billion of NICs were foregone by HMRC in contracted-out rebates.[33]

67. The DWP projections of the costs of the current system show the impact of the lower benefits, but do not take into account the value of the benefits that have in effect been pre-funded through contracting-out.

68. To properly evaluate the impact of the proposed reform on the Government finances, contracting-out should be accounted for. Adding the amount of revenue foregone in lower NICs to Government spending on pension and benefits would be one way of doing this, but risks inconsistency as the lower NICs do not benefit today's pensioners. A more consistent way would be to add the benefits built up from the lower NICs to future Government expenditure to give a better indication of the overall impact of the policy. This could be done by projecting the costs of the current system assuming that there is no contracting-out.

69. Focussing purely on the impact on long-term Government expenditure does not allow for all of the impacts of the reform proposal to be properly accounted for, and will under-estimate the impact on future pensioner incomes. PPI plans to investigate this in further analysis.

20 February 2013

[33] HMRC table 1.5

Written evidence submitted by the Trades Union Congress (TUC)

Introduction and Summary

1. The TUC represents 54 affiliated trade unions with over six million members. We are grateful to the Committee for this opportunity to outline our views on the government's plans for a single-tier state pension (STSP).

2. We acknowledge that the objectives of STSP are worthwhile. Any reduction in reliance on means tested benefits among future pensioners would be welcome, and by simplifying state pension provision, STSP should provide a more effective platform for private pensions saving than the current system.

3. We also welcome the fact that the government's proposals will mainly benefit those people approaching retirement with limited entitlements to the additional state pension (or contracted out benefits), such as lifetime low-earners and people who have spent long periods out of the labour market due to caring responsibilities.

4. Of course, the introduction of state second pension (S2P) had already extended access to additional state pensions to these groups for post-2002 accruals. Due to the low starting rate for STSP, the vast majority of people close to the beginning of, or yet to begin, their working life can expect to receive a lower state pension award under STSP than under the current system.

5. This is a major flaw in the government's proposals. By introducing STSP at a higher starting level, the government could mitigate the long-term deterioration of state pension outcomes resulting from STSP.

6. The end of earnings-related state pensions places enormous pressure on the private pensions system during a period of significant transformation. Workplace pensions are not yet fit for purpose, and pensions tax relief is not sufficiently targeted on low earners.

7. The requirement for 35 qualifying National Insurance Contributions (NICs) years for full STSP will prevent people from reaching the STSP level through post-2017 accruals, undermining the government's objective of simplification as reliance on means testing will be maintained.

8. The low starting level for STSP means that the reforms will fail to eradicate means testing for future pensioners. An alternative to "passporting" from Pension Credit to other income related benefits must be established—this is one of the key risks to the success of the reforms. Many future pensioner households will have lower income than expected due to the loss of Savings Credit—this further underlines the need for a higher STSP starting rate.

9. We have several concerns related to transitional arrangements and accrued rights. We believe the decision to revalue the "protected payment" by CPI (Consumers Prices Index) pre-SPA erodes accrued rights.

10. Higher employee (NICs) for those no longer contracted out will cause hardship following a long period of wage stagnation, and alongside higher occupational pension contributions in the public sector. Higher employer NICs in the public sector could have negative consequences for jobs, pay, and public services, despite the apparent commitment to fiscal neutrality. The government should commit to using the additional National Insurance revenue to fund the STSP reforms and mitigate these adverse consequences.

11. Greater detail is required on the "statutory override" available to private sector employers with contracted out pension schemes. Removing the need for trustee consent creates a significant risk of material losses for individual members.

12. Increasing state pension age (SPA) to 67 by 2028 would be unfair, and unlikely to extend working lives. We also believe the proposed review process for future changes to SPA is significantly flawed.

Section 1: Benefits of a Single-Tier State Pension

1.1 The government's proposals will ensure that the vast majority of future pensioners can expect the contributory state pension to provide for a basic standard of living in retirement. They will therefore be far less reliant on complex means tested benefits such as Pension Credit. This is perhaps the most significant benefit of an STSP, not least because Pension Credit is too often not taken up by eligible households, although the STSP proposals do not entirely eliminate the need for means-tested benefits.

1.2 Reducing the scope of Pension Credit also contributes, alongside the merging of basic state pension (BSP) and S2P, to simplifying the state pension over the long term. There is strong evidence that complexity in state pension outcomes contributes to under-saving in private pensions. By providing certainty for most people that their income will be above the minimum income guarantee, STSP is likely to be a more effective platform for private saving. Arguably, this is crucial to the success of automatic enrolment into workplace pensions, which the TUC has long supported. The government's decision to apply CODs (contracted-out deductions) at implementation rather than as each individual reaches SPA is a vital element of simplification. Although there is a need to recognise that there remain many people, especially those closest to retirement, who will not build up full STSP entitlement before they reach SPA—this may undermine trust in the new system.

1.3 STSP will in the short term boost the state pension outcomes of groups that have not built up strong additional state pension entitlements. In particular, women within around 20 years of retirement with lifetime low earnings, or who have spent significant periods out of the labour market, will see improved state pension outcomes as their existing NICs records are converted to the new system. However, many would have been entitled to means tested benefits to compensate for lower state pension income.

1.4 People that have spent significant periods of their working life in self-employment are also likely to gain from these proposals. Self-employed people currently do not build up any entitlement to SERPS or S2P, but pay lower NICs as a result. However, we believe that the government may in the future insist that self-employed people pay higher NICs in return for full access to the state pension—if this is intended such changes should have been detailed alongside the main proposals to allow the new system to be more comprehensively evaluated.

Section 2: Drawbacks of a Single Tier State Pension

2.1 This section focuses on the general issue of the end of earnings-related state pension provision. Subsequent sections offer more detail on problems with the government's specific proposals.

2.2 Additional state pensions have enabled people without access to a good workplace pension to build up entitlement to an earnings-related pension through the state pension system. As pensions provision in the private sector has declined rapidly over the last few decades, additional state pensions have played a vital role in enabling many people to achieve a decent standard of living in retirement. S2P in particular has strengthened access to additional state pension income to some groups, such as carers and people with disabilities, who have traditionally not been served well by private provision due to limited work histories.

2.3 The introduction of automatic enrolment, and associated employer obligations, should help to address the decline of pensions provision in the private sector. However, the TUC does not believe that the current structure of workplace pensions in the private sector is fit for purpose—as detailed in our submissions to the recent inquiries by the Committee. Furthermore, pensions tax relief expenditure is not sufficiently targeted on low-earners. The abolition of earnings-related state pension provision [Schedule 12, Part 2] places enormous pressure on private pensions in the immediate wake of radical reform, as implications for regulatory structures, industry practice and individual savings behaviour remain in flux.

2.4 The government's Impact Assessment demonstrates that, in terms of pensioner benefit expenditure, the majority of people reaching SPA after 2030 will be worse off under STSP than under the current state pension system. For example, the Impact Assessment appears to indicate that around 85% of people retiring between 2050 and 2060 would be better off under the current system. This is mainly because most of this group would have spent most or all of their working life accruing S2P. All individuals (including low earners) with long histories of work or credited activities (such as caring) will receive significantly less at SPA from STSP than they would from BSP plus S2P.

2.5 Losses for individuals increase over time as accruals under the current system become less relevant to state pension outcomes. However, even in the short-term, employees contracted in to the additional state pension throughout their working life (including low earners) can expect to get less under STSP than the current system, as they are unable to build up a state pension above £144 per week through post-2017 accruals. Employees who have been contracted in for significant periods are therefore treated unfairly by transitional arrangements; they will continue to pay the full rate of National Insurance, with little or no ability to increase their state pension award.

2.6 This is a major flaw in the government's proposals. We believe it derives from the commitment to fiscal neutrality—although the white paper shows that pensioner benefit expenditure under STSP will be lower than under the current system by the 2050s. By introducing STSP at a higher starting level, the government could mitigate the long-term deterioration of state pension outcomes resulting from STSP. £144 per week represents only 28% of median full-time earnings. Furthermore, under the original green paper proposals, the government suggested an STSP starting rate which was almost 6% higher than the then minimum income guarantee for pensioners; the white paper proposal for a starting rate of £144 per week is less than 1% more than the current guarantee.

2.7 Alternatively, faster uprating of STSP after implementation would mean that long-term losses from the abolition of S2P are minimised. We believe the government should at the very least include the "triple lock" uprating policy, rather than simply earnings, in primary legislation—although it may be necessary to uprate STSP by more than the increase in average earnings or CPI, or 2.5%, to prevent the new state pension deteriorating in value compared to the current system [Schedule 12, paragraph 13].

Section 3: Qualifying Rules

3.1 The stipulation that 35 years of NICs (or credited activities) are required for full STSP is a regressive measure [Clause 2(1b)]. The same philosophy that underpinned the reduction of required qualifying years for BSP from 39/44 to 30 should be applied to STSP. Although the long term impacts of the government's decision are unclear, it will almost certainly mean that fewer people already in work are able to accrue full STSP before reaching SPA—helping the government to achieve fiscal neutrality but undermining the simplification objective.

3.2 Similarly, we believe the decision to introduce rules on minimum qualifying years [Clause 2(3)] is based predominantly or solely on considerations of fiscal neutrality. We have requested further detail from the Department for Work and Pensions on the likely impacts. We recognise of course that means-tested benefits will remain available for groups that are not able to access STSP, if they are on low incomes in retirement—but the individuals mainly affected are likely to be from ethnic minority groups, who are less likely to claim means-tested benefits.

3.3 Currently, the linking if the National Insurance lower earnings limit (LEL) to the value of BSP prevents many low earners, predominantly women, from accruing state pension entitlements. If this link was replaced by a link between the LEL and the much higher STSP value, this would mean that many more low earners would fail to accrue state pension entitlements—compounded by the absence of derived rights in the new system.

Section 4: Income-related Benefits

4.1 As noted above, the need for means-tested benefits will not be eliminated by STSP. The low starting level means that a full STSP award will be required to take individuals above the minimum income guarantee; Pension Credit will therefore remain a significant feature of the state pension system for decades to come. This undermines the simplification objective.

4.2 Of course, the Pension Credit guarantee does not provide a sufficient retirement income—and nor will a full STSP award. One of the advantages of Pension Credit is that recipients are generally "passported" onto other income-related benefits such as Council Tax Benefit and Housing Benefit. For individuals reliant predominantly or solely on STSP for their retirement income, there will remain a need to ensure access to these other benefits. The government has yet to provide details on how this will be achieved, and we consider the potential abolition of passporting as one of the key risks to the successful implementation of STSP.

4.3 In the context of an STSP operating in combination with automatic enrolment, the TUC accepts the rationale for the withdrawal of Savings Credit [Schedule 12, Part 3]—there is little evidence that it effectively incentivises private saving. However, Savings Credit provides a vital source of retirement income for many households, and its abolition is the main reason why more than a quarter of households with at least one person reaching SPA from April 2017 to the end of 2020 will have a lower pensioner benefit income than expected under the current system. A higher starting rate for STSP would mitigate this problem.

4.4 Furthermore, recipients of Savings Credit are also currently passported onto other income-related benefits. The government's decision not to put in place alternative passporting arrangements for people who would have received Savings Credit under the current system (with the exception of 5 years of transitional protection) could have a negative impact on the income of many pensioner households that has not been detailed in the impact assessment.

Section 5: Transitional Arrangements and Accrued Rights

5.1 The government's intention to apply CODs when individuals reach SPA, and allow all NICs qualifying years after 2017 to count towards STSP accruals (up to a limit of 35) corrects a major flaw of the original green paper proposals [Clause 5]. It would be unfair to ask the individuals affected to pay higher NICs from 2017, while constraining their ability to accrue the associated STSP entitlements. This decision is also vital for achieving the simplification objective.

5.2 There are however several other areas of the reforms where the transitional arrangements, including the protection of accrued rights, are problematic. Firstly, the government's distinction of "protected payments" from foundation amounts appears to erode accrued rights [Schedule 2]. Most importantly, given that protected payments arise from additional state pension accruals, which are revalued pre-SPA by earnings, these payments should be also revalued by earnings alongside the foundation amount.

5.3 Secondly, although higher NICs will generally represent good value for money for people currently contracted out (if they are able to accrue significantly higher state pension awards from 2017 onwards), this change will have an immediate detrimental impact on individual welfare following a long period of wage stagnation, and alongside higher pension contributions in the public sector [Clause 24(1)].

5.4 There may be a longer term impact related to higher employer NICs costs in the public sector. It is right that public sector employers are not able to make changes to public service pension schemes to offset this cost. However, we are concerned that increased National Insurance costs for employers will have a detrimental impact on public services, and jobs and pay in the public sector. The government claims that that the reforms are fiscally neutral, but the exclusion of increased National Insurance revenue from this calculation means that STSP constitutes a significant saving to the Exchequer. We are concerned that, despite the government's explanation that the treatment of this revenue will be determined in the next parliament, a portion of it has already been allocated to fund changes to social care finance. The additional projected revenue should be available to fund the STSP and, in particular, to mitigate adverse consequences for public services.

5.5 Correspondence between the TUC's General Secretary and the Chief Secretary to the Treasury on this issue has been submitted to the Committee alongside this document.[34]

5.6 Fourthly, we are concerned about the government's plan to offer a "statutory override" to private sector employers with contracted out defined benefit pension schemes, to allow them to make changes to pension schemes without trustee consent [Clause 24 and Schedule 14]. We acknowledge the government's commitment that, on average, scheme members will not be worse off because the override will only allow changes that offset higher National Insurance costs—and in general members will be compensated for reduced benefits or higher contributions through higher state pension outcomes. However, because offsetting measures will be calculated at scheme level, rather than based on the impacts on individual members, it is highly likely that some members will be made worse off through this process.

5.7 This underlines the danger of suspending the need for trustee consent—and statutory protections associated with "protected persons". The override is designed to prevent employers using the end of contracting out as an excuse to close defined benefit schemes to future accruals. However, it appears to represent a narrow interpretation of the role of trustees, and a recognition that this process will lead to losses for some individuals.

5.8 Finally, we are concerned about the cliff edge effect for those retiring just before April 2017. Furthermore, because male and female SPA will not have equalised by April 2017, there are around 430,000 women who are not eligible for STSP while men of the same age are (because they will retire later, after the point at which STSP has been introduced). A two-year implementation delay would rectify this problem, but would mean that many women reaching SPA between 2017 and 2019 with limited additional state pension entitlement (as well as men reaching state pension age before 2019) will fail to benefit from STSP.

Section 6: State Pension Age

6.1 The TUC is strongly opposed to the government's plan to increase SPA to 67 by 2028 [Clause 25]. Geographical and class-based inequalities in life expectancy and healthy life expectancy are both significant and persistent. Furthermore, economic activity rates among those aged just below current SPAs are extremely high, around 40% for both men and women, principally caused by ill-health and disability. There is no evidence that a higher SPA will enable extended working lives.

6.2 Furthermore, while we welcome evidence of an increase in people working beyond current SPAs, this is largely explained by the lower female SPA. Women in their early-60s clearly have greater capacity and willingness to work than women in their late-60s, especially if male partners have yet to retire. SPA equalisation will therefore see this trend slowing or reversing.

6.3 We are concerned about the government's plans for future reviews of SPA [Clause 26]. Firstly, altering SPA every five years, in perpetuity, would represent extremely frequent change, undermining the government's objective of providing a stable platform for retirement planning. This is exacerbated by the fact that only 10 years notice will be required before any change is enacted. The Pensions Commission envisaged a 15 year notice period.

6.4 Secondly, we are concerned about the process by which reviews will be conducted. It is clear that the Government Actuary Department's (GAD's) advice will be restricted solely to maintaining the average proportion of adult life spent in retirement. An independently-led advisory body will be able to consider inequalities in life expectancy, although the government has offered no detail on the leadership, composition, resources and overall influence of this body. We believe that if there are to be any further changes in SPA, they must be determined solely by a fully independent commission, with a wide remit and trade union representation—with GAD reporting to the commission on SPA, rather than directly to ministers.

6.5 The government should also take this opportunity to enact a formal process for reviewing the link between SPA and public sector normal pension ages, as recommended by the Hutton review.

15 February 2013

Written evidence submitted by Dr Jay Ginn, Women's Budget Group (Visiting Professor, Institute of Gerontology, King's College, London)

Summary of Comments

— In principle, an enhanced basic pension is a welcome development for women. But the level of single-tier pension (STP) and its inclusiveness need to be improved if women are to benefit fully. Because of women's continuing disadvantage in accumulating private pensions, an adequate level of STP is more important for women than for men.

— STP's interaction with Pension Credit remains problematic for women due to the stricter 35 year requirement proposed, which will leave more women than men reliant on means testing.

[34] Information provided, not printed.

- Removing State Second Pension (S2P) makes private pensions the only means of securing wage replacement. Consideration should be given to subsidised care credits within National Employment Savings Trust (NEST), or retaining a state earnings-related pension with care credits as a voluntary automatic enrolment option.
- A more realistic retail prices index (RPI) used in the triple lock would avoid impoverishment with advancing age, which affects women more than men.
- If the State pension age (SPA) continues to be raised, some other benefit will be required to support those below SPA who are no longer able to continue in paid work. Years required for full STP should remain at 30, as in Basic State Pension (BSP).
- Consider making eligibility for STP more flexible for some of those over SPA.
- Gains to National Insurance (NI) income from end of contracting out and from ending derived benefits could be used to improve the NI-funded STP. There is financial leeway to make the STP more effective in combating gender inequality, in the ways suggested in this paper.

"The Single Tier Pension: a simple foundation for saving" Cm 8528 Jan 2013:

Executive Summary (EC)

EC Para 5 iii (ie 3rd bullet point). Inequalities in the pension system: The gender gap

The recognition by the Pensions Commission in 2005 of women's reduced opportunities to save for a decent income in retirement was welcome, and a suitable Single Tier Pension would in principle make a rapid advance in gender, class and ethnic equality in the state pension system. At least it will provide a floor on which to build other income and will be particularly helpful to married or cohabiting women who otherwise often have low personal incomes but are ineligible for Pension Credit. In principle, STP will ensure that most women in retirement would have a state pension in their own right); in practice women will be less likely than men to receive the full amount. STP will, in effect, restore the basic pension to its 1980 level of 25% of national average earnings, but covering more individuals and funded by a larger workforce paying higher NI contributions.

However, *the STP amount is insufficient for a decent standard of living and there is no carer protection in private pensions*. Moreover, the Bill as set out has elements that militate against gender equality in receipt of the STP, as we outline below.

EC para 12 ii. Eligibility for the STP

It is proposed that only those reaching SPA after introduction of STP will be eligible. There are two issues with this that affect women particularly:

(a) *The Gap Between Two Cliffs*. Women born between 6 April 1952 and 16 June 1953 will miss eligibility for the STP by a few months, thereby losing £36 per week if they have no S2P, while men of the same age or younger may receive STP for the rest of their lives because they reach SPA late enough to be eligible. Women in this narrow birth cohort are caught between two pieces of legislation, the 1995 Act and the 2013 Bill. On the one hand they must pay NI for several extra years and receive their state pension later than older women for whom SPA was 60; on the other, they receive a lower pension than men and women whose SPA is a few years later. This is a double blow for women born at the wrong time, for whom the stated intention of STP proposals to reduce gender inequality in state pensions will be frustrated: instead it will be magnified. Since men were allowed men to receive WFP (Winter fuel payment) at women's SPA, it would not be unreasonable for this relatively *small group of women to receive the STP when it is introduced*.

(b) *Existing pensioners*. A large proportion of women over 65 them have a partial basic pension, due to missing Home Responsibilities Protection and hence having reduced NI records. Most have no private pension of their own to boost their income. Hence older women bear a disproportionate share of poverty and means testing. It would seem fair to *allow those whose caring responsibilities led to a partial state pension to choose the STP when it is introduced*.

EC Para 14 i The Single Tier Pension

The amount proposed for the STP is meagre by international standards, well below 60% of median adjusted population income. For those able to build good private pensions this may not be serious. But most women (those who have caring responsibilities at some stages in their lifecourse) are at a disadvantage in building private pensions relative to men, due to interrupted employment histories and stretches of part time employment with low pay. The cumulative effect of gender differences in the lifecourse can be seen in women's lower likelihood of having any private pension of their own or as widows, as well as in the lower amounts received. Older women's median individual income, as a result, is only 57% of men's (see Table 1). Private pensions have been the major source of gender inequality of income in retirement for many years.

Table 1

PRIVATE* PENSIONS BY (A) MARITAL STATUS AND (B) OCCUPATIONAL CLASS^. MEN AND WOMEN AGED 65+

	a) % receiving		*b) Median amount for those with private pension*		
	Men %	*Women* %	*Men* £/wk	*Women* £/wk	*Women's/men's* %
(a) Marital status:					
Married/cohabiting	74	28	92	34	37%
Never married	52	61	65	70	108%
Widowed	70	56	61	46	75%
Divorced/separated	57	36	78	48	62%
(b) Occupational class^:					
Proffessional/managerial	90	64	172	95	55%
Intermediate	60	51	84	43	51%
Routine and manual	62	34	50	28	56%
All	**71**	**43**	**83**	**44**	**53%**
N	1,474	1,882	891	694	

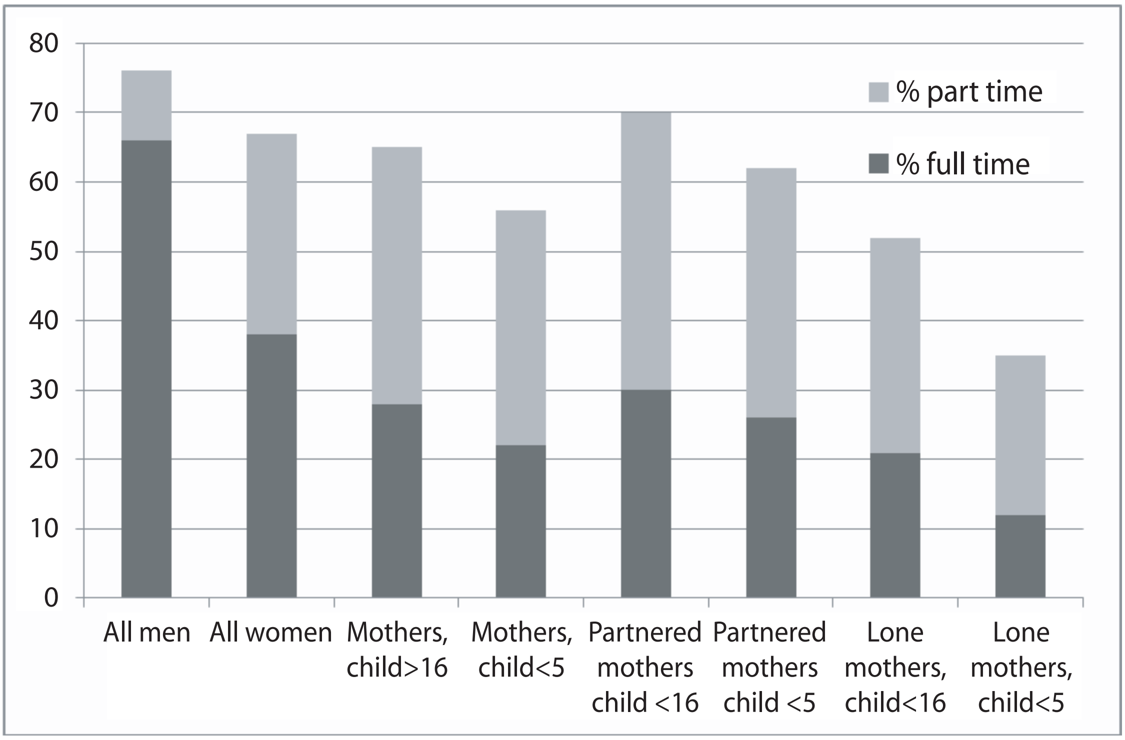
**Occupational or personal pension, including survivor pensions^ Based on own occupation*
Source: Arber and Ginn (2004) in Social Trends (using General Household Survey 2001–2)

OECD (Organisation for Economic Co-operation and Development) data (even though it assumes couples share their income equally) show a persistent gender difference in UK pensioner poverty. Recent analysis found 33% of women aged 65+, were at risk of poverty compared with 27% of men (Zaidi, 2010)**.**

There is no evidence that the gender gap in private pensions will diminish substantially, through use of NEST and other auto-enrolled schemes. Gender differences in employment histories remain for mothers, bringing loss of earnings and restricting opportunities for private pension contributions; the effects are greater for lone than partnered mothers (Ginn and Arber 2002; Ginn and MacIntyre 2012 and Figure 1). Part time work, undertaken to adjust to children's needs, is paid at a low hourly rate in UK, on average only 52% of full time employed men's rate (Pike 2011). Career breaks and part time jobs reduce occupational advancement, earnings and private pension contributions for many years after starting a family (Figure 2). While childless women approximate to a masculine lifecourse (although still subject to the gender gap in hourly pay) mothers cannot do so and the adverse impact is seen at all levels of education of mothers (for further details see Ginn and Arber 2002, www.socresonline.org.uk/7/2/).

Figure 1

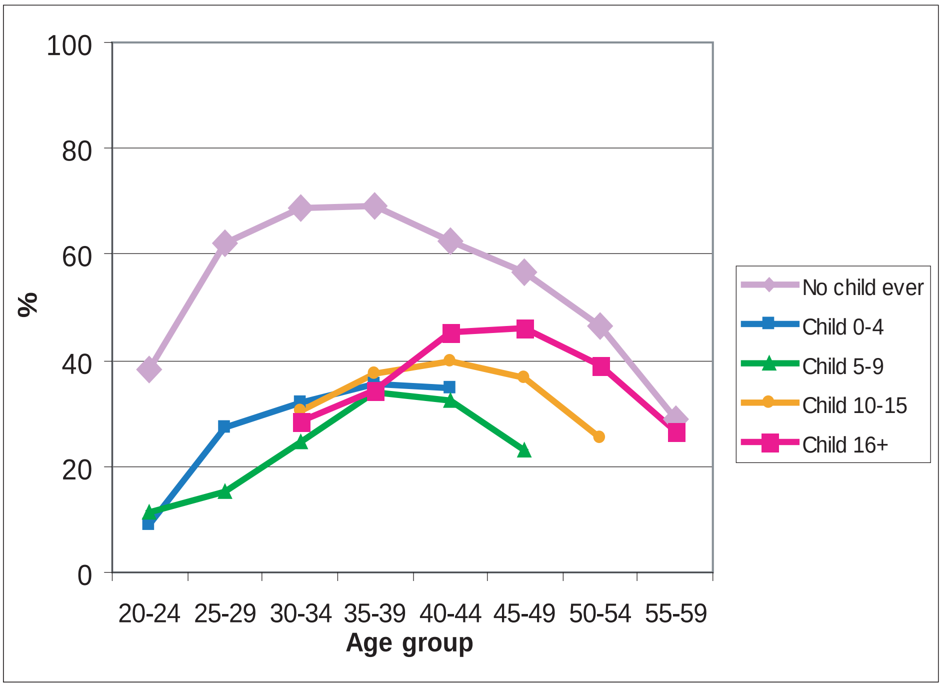
PERCENTAGE OF BRITISH MEN AND WOMEN EMPLOYED FULL AND PART TIME, BY MATERNAL AND MARITAL STATUS OF WOMEN



Source: ONS 2012, for data on employment of mothers age 16–64 (child living at home).

Figure 2

PERCENTAGE OF WOMEN CONTRIBUTING TO A PRIVATE PENSION BY MATERNAL STATUS AND AGE GROUP
BRITISH WOMEN AGED 20–59



Source: Ginn and Arber (2002) "Degrees of freedom: Can graduate women avoid the motherhood gap in pensions?' *Sociological Research On-line*, www.socresonline.org.uk/7/2/.

Childcare is not the only source of women's disadvantage in the labour market. Among midlife women, informal caring may also reduce their ability to accumulate private pension assets. Midlife women are more likely than men to provide informal care to parents/in-law (Arber and Ginn 1995). *Because of women's persistent disadvantage in accumulating private pensions, the low amount proposed for the STP is a more serious issue for women than for men.*

The proportion of women with less than the 35 required years of NI or credits for the full STP is likely to be greater than for men, due to years of caring (for children and/or adults) that do not qualify for NI credits. With the STP amount set only just above the Pension Credit threshold, eligibility for means testing is likely to be higher for women than for men, perpetuating women's disproportionate share of later life poverty and means testing; the problems of low take up and high administrative costs seem to be insoluble. *Setting the STP at a higher level would contribute to gender equality in retirement and avoid perpetuating the high proportion of older lone women eligible for Pension Credit*.

Adequate indexation of the STP is more important for women than men due to their greater average longevity and higher risk of living alone. Uprating by the triple lock is helpful but consumers prices index (CPI) does not reflect the actual rise in pensioners' cost of living; their standard of living falls as they age. Even RPI failed to reflect rising costs of essentials such as food and energy bills of pensioners (Banks *et al*., 2010: 95) and CPI is lower than RPI. *A more realistic RPI used in the triple lock would avoid impoverishment with advancing age*.

EC Para 14 ii Replacing the State Second Pension

Abolition of the S2P removes the only second-tier pension scheme that was carer-friendly. The only opportunity to obtain an adequate replacement for full time wages will be through private pensions, where, as shown above, women remain at a disadvantage relative to men. For those with gaps in employment, the overall replacement rate will be lower than for men (Price, 2007) while for the low paid even a replacement rate of 70% would leave them reliant on means testing.

The STP in full will replace about 25% of national average wages. Whereas men will usually be able to build on this with private pensions, obtaining a full time wage replacement of 40% or more, women's ability to reach this (let alone the 60–70% deemed a reasonable target range by the OECD) will be limited by their caring responsibilities. The design of state pension schemes since 1980 recognises the unfairness of penalising carers for their role, through reforms to mitigate the impact of caring. It would seem equally unfair to leave women without a carer friendly pension scheme that can provide a full-time wage replacement.

Tax relief on private pension contributions is cited in the White Paper as £45 billion per annum, a regressive subsidy (benefitting men more than women due to their higher earnings) that will increase with auto-enrolment. There is a case for ensuring some subsidy for those (mainly women) excluded from private pensions by low or no earnings while caring. An alternative subsidy could be in the form of state-funded care credits in NEST on the same basis as in S2P. In order to reduce the losses experienced by carers, I suggest either: *A state subsidised care credit system within NEST, or retaining a state earnings-related pension with care credits as a voluntary option among the auto-enrolment choices, contributions being paid into NI instead of to NEST.*

EC Para 14 ii Ending Contracting Out

This simplification is welcome in principle and will provide extra contributions for the National Insurance Fund each year. The amount in 2011 was estimated at around £8 billion. Since the purpose of the National Insurance scheme is to pay out contributory benefits including the state pension, the proper use of this annual extra resource is to improve the STP.

Increased NI contributions, with auto-enrolment into NEST (and equivalents) of staff paid above £7,500 pa, adds to employers' incentive to hold down part time wages. As the draft Bill acknowledges, private sector employers are likely to recoup the extra costs of paying higher NI for most staff (and often new costs of auto-enrolled private pension contributions for these staff) by holding down wages for *all* employees, including the lowest paid (mainly women) even if they are at that time opted out of NEST or equivalent. *The extra NI money from ending contracting out should be used to improve the STP.*

EC Para 14 iii 35 years to qualify for full STP

The 2007 Act reducing the qualifying years for the basic pension from 39 (for women) and 44 (for men) to 30 was a welcome reform, helping most women to obtain a full state pension. It offset the new restriction of NI credits in the basic pension to mothers whose youngest child was aged under 12, instead of 16. To revert now to 35 years is therefore a step backwards that is mainly to the detriment of women who raise children or care for other family members, but who for any reason do not qualify for care credits for every year of caring. For example, children aged 12 cannot necessarily be trusted to look after themselves before and after school or during the 13 weeks of school holidays. Giving house keys to children carries serious risks—to the children, their families and others. Most mothers would feel personally responsible if there were adverse consequences of 'latchkey living" and therefore fit their employment around school hours and terms by working part time, at the expense of their own earnings and career advancement.

The increase in childcare access and affordability since the 1990s promised to extend women's full time employment and mothers began to return to work sooner after childbirth. For mothers of school age children, however, longitudinal research shows that a low full time employment rate has continued (Woods *et al.*, 2003); women's pattern of employment has been relatively stable across cohorts (Price, 2007). In the current climate of austerity, there are signs that childcare services are declining, with consequences for women's employment.

In theory, a later state pension age could help women achieve the 35 years of NI contributions or credits required. But lack of jobs within reach, gendered ageism among employers, ill health and disability, caring for a spouse or parent(s) can all lead to labour market exit and prevent women catching up on years lost earlier through childcare commitments (see evidence below on EC para 34). The *years required for full STP should remain at 30*.

EC 14 iv Individual entitlement

Removing derived rights (after transitional arrangements) ends an outmoded and unfair NI subsidy to married couples, given that it is mainly childcare, rather than marriage, that restricts women's ability to earn wages and build pension entitlements (Ginn and Arber 2002 and see above) and that about half of children are now born outside marriage. However, the need to ensure that raising a family does not unfairly disadvantage women remains in private pensions, as shown above. Ending derived rights implies an improved balance between income and spending in the NIF (National Insurance Fund). Any gain from this reform should be used to raise the level of the STP**.**

EC para 16. Proportion who will receive full STP

Optimistic assumptions as to women's increasing years of employment above the LEL (Lower Earnings Limit) (see para 14 iii above) may have led to what seem high estimates of the proportions receiving the full amount by 2030 and 2060 and the related estimate of reduction in means testing.

EC para 29 Affordability

The cost of state pensions in 2060 is estimated as 8.1% of GDP under the White Paper assumptions, making a saving of 0.4% of gross domestic product (GDP) compared with the estimate for the current system. In addition, the estimate for the reformed system does not take into account the extra NI contributions of over £8bn received due to the end of contracting out (see comments on paragraph 14 ii). Interestingly, recent government proposals for social care funding claim this extra NI money can be used to help pay for those reforms. But since this is money contributed explicitly to finance NI benefits, it should be used for this purpose. Therefore, *there is some leeway to make the STP more effective in combating gender inequality, in the ways suggested in this paper.*

EC para 34 State Pension Age (SPA) rises

Proposals to continue raising the SPA assume this will translate into later exit from the labour market, saving money in two ways: paying pensions later and taking in NI and tax for longer. However, increasing average longevity does not neatly translate into ability to continue in employment to a later age. Research on employees aged 60–64 identified a number of barriers to working beyond 65 (Vickerstaff *et al.*, 2008). Common obstacles mentioned were the worker's own poor health or the need to provide informal care for others (*ibid*). Disabilities affect a significant proportion of men and women from age 60, especially among those working in manual occupations. Disability, measured as Limitations on Activities of Daily Living (LADL), affects 40% of those aged 60 and 75% of those aged over 80; disability is severe for 20% of those aged 60 and 50% of those aged over 80 (Banks *et al.*, 2010: 260–1).

The need to provide informal family care constrains women's employment more than men's. Women aged 50–69 are twice as likely as men (14% versus 7% at a given time) to be informal carers of older relatives (Arber and Ginn, 1991; 1995) and they are also more likely than men to care for grandchildren (Gray, 2005). The austerity cuts in social care services are enlarging the "caring gap" that women are expected to fill. Cuts in the public sector disproportionately affect women's jobs, while gendered age discrimination among some private sector employers also reduces women's opportunities to work longer (Loretto and Vickerstaff, 2010; McKay, 2010). Thus women and manual workers are be disproportionately restricted in their ability to work longer. Raising the SPA will deny them the state pension (and often private as well). *If the SPA continues to be raised, other benefits are required to support those below SPA who cannot continue in paid work.*

13 February 2013

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Letter from Joanne Segars, Chief Executive, National Association of Pension Funds to the Committee Chair

Many thanks for taking the time to see me last week. It was a useful catch up, and, in light of the Government’s weekend announcement on bringing forward the timetable for the implementation of the Single-tier Pension, a timely meeting too.

As you will know National Assocaition of Pension Funds (NAPF) supports these vital reforms, but the Governement has to ensure that the implementaion of these changes is workable for pension funds. This is a very tight timeframe and gives us even more concern about whether it can be delievered.

If the Government gets it wrong it risks sparking a fresh round of final salary pension closures in the private sector. Businesses who get caught on the wrong side of these changes will lose a significant rebate from the end of contracting out, and they will question whether they want to continue running these pensions. It is essential to give pension funds the flexibility and time to adapt and make the changes.

We have, of course, relayed our concerns to the Minister, but we would welcome the oppoutunity to address members of the Work and Pensions Select Committee about the issues in more detail to ensure your members are properly informed and that we also have an oppoutunity to get your guidance on how best to proceed.

19 March 2013

Written evidence submitted by Department for Work and Pensions, Letter from Steve Webb MP, Minister of State for Pensions to the Chair

I wanted to let you know that we have today confirmed to Parliament our decision to bring forward the implementation of Single Tier to 2016. I have attached a copy of the Written Ministerial Statement that was tabled in the House of Lords this afternoon and can confirm that I intend to table a similar statement in the House of Commons tomorrow.

The positive response to our proposals has reinforced the need to reform the State Pension as soon as possible to provide a clear foundation for pension saving and I am pleased that we will be able to provide people with the certainty and clarity they need even sooner. I recognise that this announcement does have a bearing on a number of the issues that have been discussed as part of the Committee's inquiry and that this has an impact on the drafting of your report. I would be very happy to discuss this with you and I have asked my officials to liaise with the Clerk to see what assistance or further information we could provide.

I would also like to thank you for inviting me to give evidence to the Committee last Monday. I very much enjoyed the opportunity to discuss the detail of the single-tier pension and I hope the Committee found it a useful session.

During last Monday's session, we discussed that the introduction of Universal Credit will extend the coverage of National Insurance credits to protect State Pension entitlement. The Department expects to lay the regulations relating to the crediting arrangements for Universal Credit shortly, but I thought it would be helpful to confirm the position I outlined during the session. Under Universal Credit the intention is that all claimants will receive a class 3 National Insurance credit, representing a significant simplification over the range of credits under the legacy benefit system. These changes will lead to National Insurance contributions being automatically credited to cover claimants who, under the legacy benefit system, would not have received any credits, such as Housing Benefit claimants earning below the Lower Earnings Limit and some Income Support claimants such as carers, who must currently make special applications to receive credits. In addition, as Universal Credit will be paid to the household, both partners will receive the class 3 National Insurance credit—benefiting those non-working partners of people in low-paid jobs who would not receive a credit from any other source under the current system.

There are a number of pieces of additional information which I thought it would be helpful to share with the Committee following our discussion and these are attached as annexes to this letter. The first (Annex 1) is a short note providing more information on the impact of the Minimum Qualifying Period for people in Great Britain and overseas as well as caseload and benefit spend data for people in so-called "frozen-rate" countries.

During our discussion, some members expressed an interest in the data that the Department has on the numbers of women who hold multiple jobs below the Lower Earnings Limit. I have attached a short note summarising the data that I shared on Monday (Annex 2). This data was published in 2007 and the Department is currently reviewing whether it is possible to provide an updated estimate but I thought you might appreciate sight of the figures that are currently available.

Finally, we also discussed the strategy for the self-employed and I indicated that our reforms are important for a group that has not been well-served by pensions policy in the past. The recent ONS publication, *General Lifestyle Survey Overview—a report on the 2011 General Lifestyle Survey* included the chart attached at Annex 3, which illustrates the point I made in oral evidence, showing that membership of personal pension schemes for full-time self-employed workers has almost halved over the last two decades.

I hope that this information will be of interest to you and I would like to once again thank you and the Committee for undertaking pre-legislative scrutiny, particularly to such a challenging timetable. I am looking forward to reading the Committee's report and I know it will be helpful to us as we legislate for these important reforms.

Annex 1

SINGLE TIER AND OVERSEAS, COVERING BOTH MINIMUM QUALIFYING PERIOD AND FROZEN PENSION SPEND BROKEN DOWN BY COUNTRY

1. This note contains further details of the likely number of people affected by the proposed Minimum Qualifying Period (MQP) for the new Single Tier Pension, to be set at a level between seven and 10 years (Table 1). It also contains further information on how many pensioners live in countries where their UK State Pension is not subject to the annual uprating increase ("frozen-rate" countries) and an estimate of how much we spend on State Pensions in these countries (Table 2).

2. Our estimate of the number of Great Britain and overseas residents affected by the MQP over the first three years of the single-tier pension is shown in Table 1 below.

3. The proportion of overseas residents reaching State Pension age under the single tier that are affected by the MQP is much greater than the proportion of GB residents that are affected. This is expected to be approximately 2% of the GB cohort and 20% of the overseas cohort.

4. A key limitation in our methodology is uncertainty around the State Pension accrued by these individuals in countries with which the UK has a bilateral social security agreement[35] and the EEA countries. Qualifying years gained by individuals in these EEA and bilateral countries will count towards satisfying the MQP. For example, an individual reaching State Pension age who had worked for eight years in France and two in the UK would satisfy a 10 year MQP, and would be paid a single-tier pension of 2/35ths the full rate.

Table 1

ESTIMATE OF NUMBER OF PEOPLE AFFECTED BY THE MQP, 2017–20

Year of SPa	*2017–20*
Great Britain residents	
7 year condition	6,000–10,000 per year
10 year condition	9,000–12,000 per year
Overseas residents	
7 year condition	5,000–9,000 per year
10 year condition	6,000–10,000 per year

Source: Based on NICs records from L2 data for 2010–11 financial year (1% sample of NIRS2). DWP modelling of qualifying years gained in the intervening years.
Note: Data are presented as ranges to indicate uncertainty around the final outcome.
Note: The analysis is static and assumes no within-cohort migration or mortality.
Note: The overseas estimate assumes that all people living in an EEA or bilateral country will overcome the MQP on account of gaining the required balance of qualifying years over the rest of their working lives abroad. However, it also assumes that none of those living in non-EEA or non-bilateral countries gain sufficient qualifying years to overcome the MQP.

5. Table 2 below shows the basic State Pension caseload in the main "frozen-rate" countries as well as an estimate of how much we spend in each of these countries.

Table 2

BASIC STATE PENSION ENTITLEMENT, "FROZEN-RATE" COUNTRIES, MARCH 2012

Territory	*Caseload, March 2012 (thousands)*	*Average weekly amount £*	*Estimated average yearly amount £*	*Estimated total annual spend (£m)*
Australia	255	36	1,872	480
Canada	156	33	1,692	260
New Zealand	55	37	1,923	110
South Africa	38	45	2,317	90
India	6	37	1,928	10
Top 5 "frozen-rate" countries combined	*510*	*36*	*1,856*	*950*
Remaining "frozen-rate" countries (less than 5,000 caseload) combined	*49*	*52*	*2,702*	*130*
All "frozen-rate" countries	**559**	**37**	**1,931**	**1,080**

Source: DWP Tabtool 5% State Pensions sample data.

Note: Caseload rounded to nearest 1,000. Total spending to nearest £10 million.

Annex 2

A SUMMARY OF DWP MODELLING ON MULTIPLE JOBS BELOW THE LEL

— In Spring 2007 DWP published analysis showing the number of people who might benefit from aggregation of earnings for the purposes of basic State Pension accrual. This analysis has since been removed from the DWP website, and it has not been updated with more recent data. We are currently reviewing whether it is possible to provide an updated estimate.

[35] Bilateral countries include: Barbados, Bermuda, Isle of Man, Israel, Jamaica, Jersey & Guernsey, Mauritius, Philippines, Turkey and the USA.

— The group in question were those people who weren't getting credits from other means, and were working in two jobs below the Lower Earnings Limit—then £87 per week—which if taken together would be above the LEL.

— A previous estimate had been published in the DWP report *Women and Pensions: The evidence* (November 2005) where it was estimated that **"fewer than 50 thousand"** women were in multiple jobs, not accruing basic State Pension, based on evidence from the Family Resources Survey (FRS, 2003/04). This evidence was limited by a small sample and it did not tell us how many of these women could benefit from earnings aggregation—ie with combined earnings above the LEL.

— The spring 2007 analysis was conducted using Labour Force Survey data, averaging results from two full calendar years from 2004 to 2006. It refined the previous estimate as the larger sample size allowed for further breakdowns of the data.

— The analysis showed that:

  — Around 65,000 women were in two jobs which were both below the LEL.

  — Of these, around 25,000 were not accruing basic State Pension through other means (credits for dependent children or "starter" credits).

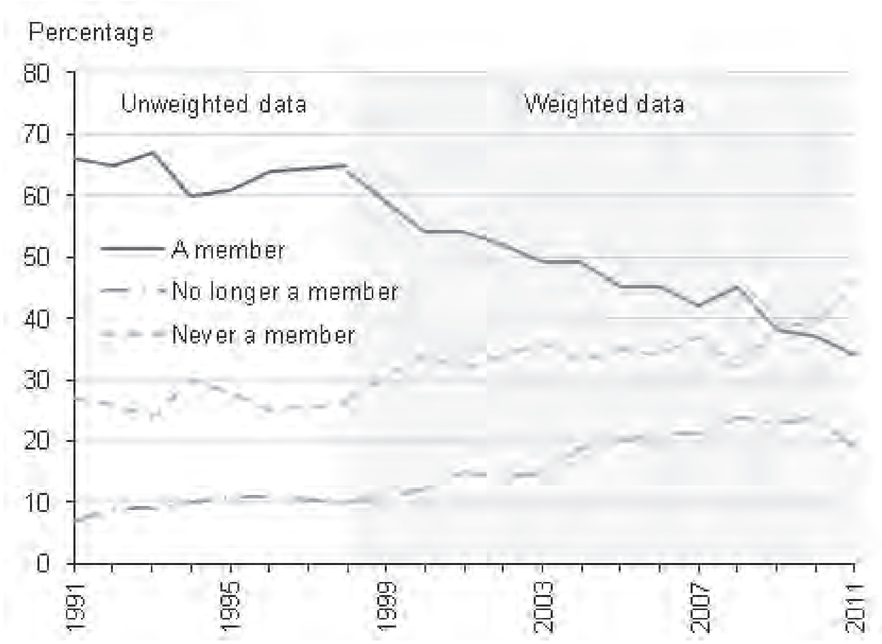
  — Of these, **around 15,000** were found to have combined earnings above the LEL, and hence could benefit from aggregation of earnings.

— The same method also suggested that the number of men who would benefit from earnings aggregation was **around 5,000**.

Annex 3

ONS CHART ON SELF-EMPLOYMENT

Membership of a personal pension scheme for self-employed men working full time, 1991 to 2011, Great Britain



Source: General Lifestyle Survey—Office for National Statistics 2013

Note: A personal pension is defined to include personal pensions, stakeholder pensions and retirement annuities; personal pensions may include SIPPs.

Note: 2005 data includes the last quarter of 2004–05 data as the survey changed from a financial year to a calendar year. Results from 2006 onwards include longitudinal data.

Note: For 1998 unweighted and weighted data are shown for comparison purposes. Weighted data are not available before this point.

Note: The survey was not run in 1997–98 or 1999–2000. A linear trend has been drawn between the data point before and after these years.

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