The future for the pensions market - further challenges for auto-enrolment and introducing 'Defined Ambition'

9th December 2014

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Session Chair's opening remarks
Nigel Mills MP, Member, Work and Pensions Select Committee

Thank you, it's great to see everybody here this morning.

I suppose without further ado we might as well invite our first guest to come and give his address. Steve are you going to come and give us your thoughts, I'm sure we are all expecting some radical pension reform to be announced this morning, we haven't had much of that recently.

Reforming the pensions market - priorities for policy
Rt Hon Professor Steve Webb MP, Minister of State for Pensions, Department for Work and Pensions

Nigel, thank you very much and good morning to all of you.

I was going to be incredibly indiscreet and tell you everything that goes on behind the scenes, but I gather it's all being transcribed so I better stay on message ish. Two topics then today, automatic enrolment, and defined ambition shared risk, and so on, just to update you on our latest thinking.

So, latest figures from the pension's regulator, 4.9 million people automatically enrolled, and I think there is a danger that if you live in the pension's world big numbers just bounce off you, you know, if it's not a trillion or something, you know, I don't get out of bed for less than a trillion these days. And yet, you know, five million people nearly, in two years, that is extraordinary. By the time this programme is finished in 2018 it will be ten million, that will be more than a quarter, well, getting on for a quarter, of the adult population of the country. It's very hard to think of anything else Government's done in the last few years that has had such a beneficial effect on so many people, and barely been noticed.

And, I kind of think that's a triumph in a way, because there was always a risk, wasn't there, any time you do pensions there is always a risk of a negative headline, there is always someone who wants to say, scandal, rip off, crisis. You know, I used to say that I…for the last few years I've been the Minister for a subject that never appears in headlines without the word, scandal, or, crisis. And yet, an automatic enrolment, we've just done it, and you've done it, as employers, as providers, with remarkably little fuss.

Now, I was chatting to Mike Cherry, from the FSB, and he gently pointed out that we haven't quite finished yet, and that there are one or two bits to go, and I think that's right. But, I do think, we should just pause and say, what an achievement it is to get best part of 90% of people staying in. Now, every time I see the figures I keep thinking someone's going to rush into my room and say, well, yes, those great opt out rates, it's all gone pear shaped, we've gone from the big firms to the medium sized firms, it's falling apart, and it isn't. So, we've surveyed people who stayed in 2014, and we're still looking at 85% or so, 85% to 90% staying in.

And so, given the weighting on the very largest firms, in terms of what will happen with the smallest firms, clearly there are two ways of looking at it. One, is to say, the employer has very limited resources, they don't have big HR departments, comms campaigns, and all the rest of it, so maybe auto-enrolment won't work. On the other hand, you're auto-enrolling people who on the whole have never been offered a pension at all. So, whereas with the biggest firms, sometimes we were effectively re-enrolling people who've been contract joined and opted out, who we came along and re-enrolled, and funnily enough they opted out again in many cases. Whereas, with the smallest firms it's virgin territory, it's people who have never been enrolled in many cases, so actually I think the take up rate will be pretty good, I mean, we don't know for sure, but I think it will be pretty good.

Something else that I think will boost the staying in rate, is the budget pension reforms, the new freedoms, because pensions are now a more popular product. We've done our own surveying, and others have done surveying, and clearly the sense that you are locking up your money, and tied into what you do with it at the end, has gone. So, it's, you know, the highest opt rates have been amongst the over 55s, partly some of them had enough pension they were quite happy. But, some of them said, well, why would I want to tie my money up at this point in my life? And, the sort answer is, you're not. So, you're enrolled at 55, the firm puts some money in, the Government puts some money in, you put some money in, you can opt out if you want to, but why on earth would you, when it's essentially free cash, that you can access as cash, pretty much any time you want.

So, I actually think that will help the staying in rates. We've also got re-enrolment to come, because this time next year we'll be three years on from the first automatic enrolment, so we'll have re-enrolment, and again that will help to push the numbers up, so I don't see any sign of that diminishing. April, is another staging point, when we bring in our charges and governance measures, or the first tranche of them, so the 0.75% cap on default funds. Followed, in 2016, by abolition of active member discounts, abolition of consultancy charges and commission. Another look at charges in 2017, look at whether we need to bring transaction costs into the charge cap, look at whether the cap is too high. All of that is ratcheting down the costs of your pension.

And, I do regular radio phone-ins now, not quite in the, sort of, Call Clegg league clearly. But, lots of people ring in, and practically every week you can guarantee someone will say, I don't trust all these pensions, they're a rip off, all my money's going into, you know, line the pockets of fat cats, or whatever it is. And, I'm able to say now, actually, from next April, of every £1 you put in your pension, more than 99p will turn into pension. Not only that, your £1 has already become £2 because of your employer contribution, you show me another investment where you can get that return. And, I think we've got a good story to tell, but we've got to protect the reputation of auto-enrolment, hence the quality and charges measures.

Where do we go after the Election, and where do we go once this phase is completed? We've already announced we're going to legislate to lift the constraints on NEST, so NEST will be a provider like any other, in the sense that transfers in, transfers out, will be allowed, the contribution cap will be lifted So again, that will help to offer a good value for money option, one of several. But, where do we go after that? Well, people originally said 8% is not enough, and I agree with that, for someone on middle or higher income, 8%, plus a state pension, won't get you the kind of replacement rate in retirement that you would want.

So, how do we get beyond the 8%? Some people say, well, shouldn't we go for compulsion. And, I guess there's an argument that said, on day one compulsion would have been something that should have been looked at, on day one. But, having gone through all the agonies of an opt out scheme, having had 90% stay in, and the people who are opting out, to be honest, by and large, many of them have a perfectly good reason for opting out, like, they've used up their lifetime tax limits, or are near retirement and do actually have enough pension savings. So, to move to compulsion to get that last 10% in, many of whom don't want to be in, and they've actively chosen not to be in, would be a very strange thing to do at this point.

So, how do we get that 8% up without causing mass opt out? And, for me, again using the default process that we've used to get people in, I think we should use the defaults to escalate people up. So, you join a firm, and by default, when you get a pay rise, a percentage of your pay rise goes into your pension. Now, one can think of a thousand permutations, and the analysts in my department are salivating already at the thought of running all these through their computers. But, the basic idea, you could say, keep it simple, you know, you start at eight when you join a firm, each time you get a pay rise another, you know, 0.5%, or whatever it is, goes on until you reach an upper limit of 15, or whatever the right number would be. Or, you do slower for young people, and faster for older workers, or slower for low earners, and faster for high earners, you can think of a thousand permeations, I don't have an ideological view on that.

But, I do think that waiting for people to escalate their contributions, we'll wait a very long time. And, what we don't want, crucially, is people get to the end of this process and they say, hang on, you set the level of the State Pension, you set the auto-enrolment default, I did everything you told me, i.e. I didn't opt out, I've got to pension age and my living standard has just collapsed. Why didn't you set it at a realistic level? So, we need to address that.

The other thing on auto-enrolment I think we need to address is small pots. We've legislated now for the process of each time you change job the pot follows you, so that you accumulate not a set of scattered small pots, but a big fat pot. We intend to have that in place by around October 2016, and the basic idea would be that, as you move job, your new scheme checks with a registry whether there is a stranded pot for you. If there is, they pull it across from the old scheme, unless you opt out, that's the basic idea. We might look at starting, for example, with the biggest providers, the biggest ten, the biggest 20, or something. The biggest 20 would cover 95% of the market, so if we could get it going for 95% of the market we'd be most of the way

there, establish the principle. Because, if we want people to engage with pension saving, then we have to make sure that the amounts of money on the letters they're getting are worthwhile. Instead of getting ten silly letters from ten providers, with a silly amount of money in, you get one letter from one provider, with a worthwhile amount of money in, and then you engage in pension saving.

So, my reflection on auto-enrolment, it's been hugely successful so far, but it wouldn't go on being successful unless, a) we'd reformed the State pension to make sure that what you're building on is a simpler, fairer foundation, with less means testing, and, that we guaranteed quality, through a charge cap and governance rules. Then, we have to make sure that people are going beyond 8%, we have to make sure people are consolidating small pots. Obviously, we have to make it work for small businesses, and we'll go on…you know, we're already making further changes, and if we need to make more we will, to make sure that this is about pensions, and trying to get as many people in as possible, and that's the goal.

So, that's where the land lies, I think, on auto-enrolment. In terms of shared risk, defined ambition, CDC, all of that, the Pension Scheme's Bill is through the House of Commons now, it's just gone off the House of Lords, they'll debate just before Christmas. Nigel and colleagues gave us rigorous scrutiny, during the course of that Bill, and what we have to bring forward is…the way I think of this is a rectangle, a grid with three columns and two rows, that may not help anybody else, but it helps me. And, basically, all pension schemes will be in one of three columns: defined benefit, at one extreme, hard promises; defined contribution, at the other extreme, no promises at all; and, shared risk, in the middle, defined ambition, DA, where there is a sharing of risk, perhaps between the employer and the employee, or between the employer, the employee and a third party, like an insurance company.

And, that DA space is populated now, so if you're a pension scheme that shares longevity risk, so when people are living longer your pension scheme says, ah well, you'll have to wait longer for your pension because people are living longer, that's sharing the longevity risk, away from the employer, onto the employee. So, that space is occupied now. It will grow, clearly, as the costs and volatility of hard promises becomes prohibitive, but people realise that individual DC also has limits, this shared risk space will grow. And, what we wanted to do was put in place a legislative framework that was clear. Instead of having a bit of DB regulation, and a bit of DC regulation, set out a clear DB, DA, DC regulatory framework.

So, those are my three columns on my rectangle, and then we have two rows, which are collective and non-collective benefits. So, what we're trying to do there is say, as well as sharing risk between employer, and employee, and perhaps an insurance provider, we can pool risks between scheme members. So, just as happens in different ways in Canada, in the Netherlands, in Scandinavia, and elsewhere, why not? Instead of having you in your small corner and me in mine, look at whether we can pool our assets, pool our investments, certainly have a target for benefits, but not a hard promise. And that way, when you have the ups and downs of the economy, as demographics change, as inflation and investment returns, and so on, all this, kind of, churn and change can be smoothed through pooling and through scale.

It works well in other places, there is no reason why a British version shouldn't work. We're not just going to cut and paste the Dutch scheme, or the Canadian scheme, we'll do it our own way, reflecting that, for example, it's not mandatory in the UK. But, it looks to us as though there are two routes to these schemes, first of all, people coming out of DB. And, there's still nearly two million private sector workers accumulating DB pension rights in this country. So, firms who move out of DB might not go to the other extreme, might stop somewhere in the middle. But, we're also seeing signs that individual DC might morph into collective DC. So, for example, we know of some big corporates who are looking at their young workers being in individual DC, but as the workers get older, you know, my kind of age, they start thinking, actually I want a bit more certainty, I want less volatility. So, they're looking at whether older workers, in the second half of their working life, might be in a collective scheme, rather than an individual one.

So, people say to me, oh, you know, I can't name ten household name employers who want to do this. Well, of course they can't, because that would…a) they don't know what it looks like yet, they don't know what the legislation looks like, and, of course, if you were going to move from DB to something else, you'd want to

handle that very well, you wouldn't want to just, sort of, tell a newspaper, you'd want to do it properly, consult your employers, offer them alternatives. So, there's a bit of chicken and egg here, we have to get the legislation in place, and then firms and providers can take it up. But, we know, for example, the Trade Unions are very keen on CDC, we know of employers who are looking at this quite seriously, so I talk quietly to some big schemes, who are looking at whether CDC, or some form of risk sharing, or risk pooling, might be the way forward for them.

So, Nigel, I guess, my message really would be that, automatic enrolment is a reform which is well on its way. I think the changes we've made have made it far more effective. Nothing is every proof against negative headlines, against scandal, and rip off, and all the rest of it. But, through effective product regulation, through keeping a close eye on the roll out, I think what we've achieved, and you have helped achieve, has been a great thing that will be seen around the world. In fact, we find already, people from around the world are saying, that's really interesting, you've made it work, not everybody's made automatic enrolment work, you have, what did you do, how did you do it. So, I think that model could be very interesting.

I think the potential for risk sharing and risk pooling will only grow. Because, if we do nothing, we'll end up with a situation where we've transferred risk from corporate, who are relatively well able to absorb it, to individuals who just aren't. And, that pendulum, as pendulums always do, will swing back to risk sharing and risk pooling. And, I think, funnily enough, although State Pension reform, auto-enrol, budget freedoms, get all the headlines, risk pooling and risk sharing may be one of the lasting legacies of the last five years. Thank you very much.

Reforming the pensions market - priorities for policy
Questions and comments from the floor

Nigel Mills MP: Thank you, Steve, and you're well on time, so we have about 20 minutes for questions, so we can take plenty from the floor. I certainly loved hearing about your rectangle, and I think a couple of more times and I'll have mastered it. Okay, who wants to ask the first question? If you could say your name and who you represent, when you start, for the record that would be helpful. Any questions for Steve?

Nick Gannon: From B&CE People's Pension.
You quite rightly point out that 4.9 million people have been enrolled, which is absolutely brilliant. But, there's the same number, or possibly slightly more, who haven't been enrolled, is there a particular problem with that?

Rt Hon Professor Steve Webb MP: There are certainly a set of different issues. Let me give you one example. With the biggest firms, we tried to be enabling, give people choices, customise it for their own workforce. The feedback we're getting from the smallest firms is, just tell us what to do. I don't want choices, I don't want menus, I don't want, you know, just tell me how I stay out of jail. And, that might imply a different approach in our communications, in the way the regulator acts, so we're trying to do things differently. There's a slightly shady organisation called The Friends of Automatic Enrolment, and I attended - sorry, Andy. I attended one of their meetings in London, and I also attended what's called the Bristol chapter, there's quite a lot of leather being worn at that one. And, there are groups all around the country, and I would encourage all of you in the room, if you come across a group, or hear about it, please go along. Because, what we're getting through those groups is feedback on the nitty gritty. So, I'll give you another example that came up at the Bristol meeting. I'm a small firm, I have no pension scheme and I get a letter from this organisation called the Pensions Regulator, and I bin it, because I don't have a pension, so why would I read a letter from the Pensions Regulator. And, the comment was made is, why don't you put HMRC on the outside of the envelope, because they'll open that. Now, our colleagues at Pensions Regulator have a view on the subject, but you can see, sorry Charles, but, you can see this, kind of, it's not what you think, you know, if you're used to dealing with big corporates it's just a different way of thinking. I think the second thing is, we've made a lot of changes already which will help small firms. First of all just delay, just, you know, giving them more time to prepare. I think, secondly, raising the threshold for enrolment to £10,000. Now, just perhaps just to say a word about that, if I may. People say, you're excluding low paid workers, and my argument is, you want to exclude the right people, but not default the wrong people into pension saving. So, if you enrol at £7,000, say, then you've got a State Pension that, even at today's rates, is going to be £7,500. So, you have someone who is earning £7,000, you enrol them into a pension scheme that they put pennies into, to top up an income in retirement that's bigger than their income when they're working. And, I think that would attract derision, I think small firms particularly who employ one person earning £7,000 would say, hang on, you've just made me choose a

pension scheme, do all the administration, to put three pence halfpenny into a pension, and they're only going to opt out anyway, because at £7,000 a year they've got no spare cash. So, we've got to…I think there's a lot of mythology about this. £10,000 is the threshold at the moment, we're about to publish the results of our consultation on next year's threshold. But, what we're trying to do is, strike that balance between enrolling the right people, but not excluding people who should be saving for a pension. So, £10,000 has helped small firms, but we're constantly talking to payroll providers, bookkeepers, accountants, what I call the turn to people. You know, I'm a small firm, I don't know anything about this stuff, I want to do it right, who am I going to talk to, my bookkeeper, my accountant, whoever. And, we're making sure, as best we can, that those people know what answers to give. Sorry, it's a rather long answer but…

Nigel Mills MP: Take someone there.

Andy Agathangelou: Chairman of Friends of AE.
We have, for some months, been asking for the opportunity to have any, what we call, unrewarded complexity stripped out of the rules. And, I just want to say that, the recent work the DWP has been doing, for example, around simplifying the comms processes, is absolutely first class, because, it's really going to make a huge difference, turning a whole load of complicated letters into just a few, makes a massive difference if you're responsible for actually implementing AE. But, the question is, is there scope for more of the same? Whilst understanding the difficulty around always tinkering with the rules, those sorts of changes can make a huge difference for us?

Rt Hon Professor Steve Webb: Thank you, Andy, and for all that you're doing with colleagues to try and, as I say, make this thing work. As you say, one of the things which we've changed is, we were very prescriptive about what letters you had to send to who, and what they said, and what dates you had to send them. And, following feedback, we've streamlined that, and we're absolutely open to further suggestions. And, as you say, Andy, what we're trying to do, is strike the balance between constantly fiddling, so that, you know, another month another change, and being, kind of, right, it's right, it's what we said, go away, kind of thing. And so, what we try to do is, do a batch of changes, let it bed down, get some feedback, do another batch of changes. And, that's, kind of, how we've done it. So, particularly administrative changes that don't involve statutory instruments, and all the rest of it, that's always helpful. But, anything…my test is, does it add value, does the rule that we're making people jump through actually make it a better system, is it value for money. And if it's a rule that's not really adding much, then we'll take it out.

Nigel Mills MP: Lady at the front there.

Natasha Browne: From Professional Pensions.
Yesterday the OECD said that the decision to abolish compulsory annuitisation risked undermining auto-enrolment, especially as you can't manage individual longevity risk. And, I just wondered if you thought there was a truth in that?

Rt Hon Professor Steve Webb: It's funny how organisations have a, kind of, collective position, and the OECD has a collective position, and Britain does something a bit radical, a bit revolutionary, and the institutional conservatism, with a small 'c', is to just say, no, no, that's not the way we've always told people. And, because the OECD, and other organisations, tell countries how they should do pensions, and we're daring to do something that's not orthodox, you know, there's initial, kind of, reaction against it. I think time will tell but…well, time will tell the opposite…sorry, I'll finish that sentence, time will tell the opposite in that, first of all, we think it will boost auto-enrolment. Because, it's a more popular product, it's a more flexible product, so actually, when you're enrolled, it's, oh I'm enrolled into one of those flexible pension things, not, I'm enrolled into a straightjacket. So, actually I think it will boost take up of auto-enrolment. We're not banning annuities, so if people want to ensure away their longevity risk, you know, that's fine by me, you know, I often say, I don't want to be the Pension's Minister who abolished pensions, you know, I'm not anti-annuities. But, we're giving people choices, and of course, they are sophisticated choices for many people, that's why we have to equip them through the Guidance Guarantee, huge amount of work going on through that. We're placing duties on providers to make sure that they flag the Guidance Guarantee, that they promote the Guidance Guarantee. Of course, that's not a panacea, you know, people…but, I think many people take regulated financial advice, particularly at the, sort of, the budget end, if we can expand that. So, you know, I don't dismiss the issue, clearly we need to equip people, clearly people will tend to be short sighted, so the guidance needs to familiarise them with the fact they might live for 20 years, or 30 years, in retirement. But, that's what happens when you trust people, and I'd rather presume that we trust and enable people, rather than straightjacket them.

Nigel Mills MP: Lady at the back.

Dr Jo Grady: From the University of Leicester.
Thank you. I wanted to ask a question regarding the 8% return for auto-enrolment, and your suggestion that perhaps this could be addressed by increasing that percentage every time somebody had a pay increase. My concern with that approach, even based on the statistics from the DWP, is the kind of workers that might need something more concrete than that would be people earning a very low wage. And, if we think that, you know, one in five people in Britain, do earn a very low wage, perhaps a living wage, these aren't the kinds of people that get regular wage increases that might, kind of, be addressed by the solution that you've put forward. So I was wondering if there's some kind of plan, from our joined up approach within that auto-enrolment increasing percentages?

Rt Hon Professor Steve Webb: Yes. I guess it depends what you think a pension is for. A pension isn't going to fix the problems of the labour market. So, pensions are about making sure that when you don't…sorry, I don't mean to sound patronising, but it's fundamental. Pensions are about making sure that your standard of living you had when you were working, doesn't decline substantially when you're not working. That's why I get out of bed in

the morning, to make sure that people who are in work, when they stop working, don't see their standard of living fall, that's my job. Now, if someone's got a low wage, obviously there's a whole raft of policies one might do about skills, and minimum wage, living wage, and all of that, and tax credits, and things like that. There's a whole set of things you might do there. But, if the State Pension, which is heavily redistributive towards low earners, bear in mind, and the new flat rate State Pension even more redistributive to low earners, that's where we do the redistribution. So, that's going to be £7,500 to £8,000, based on current rates. Now, someone doing a full time job on the minimum wage is probably earning £12/12,500. They've got £7,500 to £8,000 from a State Pension and 8% minimum auto-enrolment contribution gets them nearly there. So, if you're on £12,500, what we've already put in place, will more or less maintain your standard of living in retirement. It won't improve it, and if we think it's not good enough when you're at work we ought to do something about that, but the pension system isn't going to fix that. So, my auto-escalation is not really targeted at the low paid, who actually the State Pension is doing the bulk plus an 8%. It's targeted actually at the medium and higher paid. Because, I don't think we have a replacement rate problem for the low paid, we have a low pay problem that we need to address, but that's not the pension side of things. So, auto-escalation, I think, is largely about medium and higher earners, for whom 8% is not enough. For low earners, 8% and a decent flat rate State Pension, is probably pretty near what they need.

Nigel Mills MP: Anymore questions for Steve? Gentleman there.

Steve Goddard: From Salvus Master Trust.
Advice, I just wanted your thoughts on how you see advice, regulated advice, going forward over the next, say, three or five years.

Rt Hon Professor Steve Webb: Whom?

Steve Goddard: To members, auto-enrolment members. I mean, some parts…well, we think that, you know, there's been four of five million, as you say, people auto-enrolled. A very high chunk of those have been auto-enrolled without any advice. Talking about your, sort of, minimum standards of living, and taking that forward, do you see that advice is going to increase, or decrease, or be valued by these people going forward? And, how is it going to be paid for, because I think that RDR is a failure, and how are they going to pay for that advice?

Rt Hon Professor Steve Webb: Yes, okay. I mean, auto-enrolment was always attended to be unadvised, full stop, you know, not least for the reason you give. That, if relatively modest amounts of cash are going in, a) there just isn't the money for advice and, b) it's, kind of, a no-brainer really, in the sense of, you know, someone is going to give you some free money, the Government is going to give you tax relief. You can opt out if you want anyway, it's very hard to see there are many people who choose to say in who self-evidently shouldn't. Particularly now that we've got the budget freedom, so they can get their cash back again at 55, or whenever they want. So, I don't see, capital 'A', Advice having much role in auto-enrolment per se. However, two things, first of all, if we get lots more people into pension saving much sooner, then over time we

will get much more big fat pots, and I think there will then be more interest and engagement in workplace pensions. And, one of the reasons I reject the, sort of, your small pot should go off to, sort of, the home of lost pots somewhere over there, rather than following you around. You see, if they follow you round, your current pension pot has your pension savings in it. So, if your employer offers workplace pension comms, you're really interested because that's where your money is. If most of your pension is lots of small pots sent off to some super trust over here, then the workplace pension comms, you're not even going to engage, because that's not where your money is. So, actually, I think having your money with you will lead to engagement, big fat pots, and workplace…take up of workplace guidance and advice. And then, crucially, at retirement, and I use that phrase loosely, at decumulation, I think there will be more demand for financial advice, not less. I think people who have a guidance conversation, will get a taste for it. I've likened it to, kind of, wine tasting and fine wine, it may not be the best analogy. But, basically, you'll think, oh I've got some choices here I didn't know about, there's products I've never heard about, actually I really need to talk to somebody about this. And, if the supply side of the market fills that, kind of, low end gap for budget advice, for want of a better phrase, then I think there'll probably be more take up not less. But, it will just be different sorts of advice from what we've been used to.

Nigel Mills MP: Right, gentleman at the front.

Will Wynne: From Smart Pension.
Just a simple question, I know you can't necessarily say, but where do you guess that the basic contribution level will settle eventually, so up from 8% given all the stuff around the world, and so on, and as much as you can say?

Rt Hon Professor Steve Webb: Yes. My instinct would be that you don't go in when you start a job much beyond 8%. Because, I think if you go in at 15% or something, people will just opt out, that's the real risk. It's interesting, isn't it, because Australia got to 9% and then they threatened 12% and then it, kind of, pulled back from that. So, I mean, although people say Australia is great, and Britain is rubbish, kind of thing, actually we're not far short. Alright, it's 8% of band earnings, and so one thing you could look at is, should it be band earnings, should it be the whole of earnings, you could look at that, I think, reasonably. So, my instinct is, you probably always go in at a, kind of, manageable not scary level. What you ought to escalate to, depends, I think, on who you're doing it for. So, coming back to the question from the back there, you know, if you're on a low wage you probably don't need to go much beyond 8% to maintain your standard of living. If you're on a medium wage you probably need to get to, you know, 12 – 15%, for a high wage more. But then, you might have other wealth and so on, so I think that would need to be calibrated. But, my sense is, that the minimum statutory number, my guess is, probably doesn't need to go up much, but then you escalate from it.

Nigel Mills MP: Go on, Steve, I can ask you a question, we've got three minutes left. When you leave language like, the Government puts money in that,

kind of, looks like a very different phrase to saying, your pension contributions come out of your untaxed earnings, which would be your money. What do you think the future is for the tax relief on pension contributions?

Rt Hon Professor Steve Webb: Yes. Well, I think people don't get tax relief on the whole, the money goes out of their pay, into their pension, they haven't got a clue that they've had tax relief on it. You know, I think most people haven't got the faintest idea what's going on, so I don't buy the argument that says tax relief per se incentives pension saving for the mass market. My feeling is that, if I put £1 into a pension it costs me 60p, if someone who works in my office puts £1 into a pension it cost them 80p, and I can't think that that's sustainable. So, I think, people, every time there is a budget, every time there's an autumn statement, there's speculation, will tax relief get tweaked, and so on and, that's destabilising, and I think what we need is to resolve this issue once and for all. So, I think, we all need to sit down and say, what does a sustainable fair tax relief system look like? In my view that would be the same rate for everybody, above 20, below 40. Chris Curry and his colleagues at the PPI reckon 30% is the, kind of, Exchequer neutral number. Which is surprising really, given that most people pay at 20, but the people who pay at 40 put shed loads of money in, so that's why the cost, to use a technical term, that's why it comes out at 30. I suspect a future Government, given the fiscal position, will want to go below 30, I suspect. So, I think a flat rate, probably that raises a bit of money for the Government, that's fairer, which would mean, because most people pay at the standard rate, most pension savers would get a bit more help, which again comes back to the question earlier on about the low paid. That's what I'd go for, I'd keep the tax free lump sum, as Nigel Lawson once said, the anomalous but much loved tax free lump sum, I don't think we need to get rid of that. And, as my thing to keep high earners on board, I'd abolish the life time limit. Because, once you've got a reasonable annual limit, and a reasonable annual rate of relief, I don't see you need to keep lifetime records to stop people doing that every year, I'm quite content. And, if that, to use a slogan, gets the bosses back into pensions, which is what people say to me in the workplace, the top earners have reached their limit so they're out of the workplace pension scheme. If you can get the bosses back in the workplace pension scheme, they're certainly engaged, and that actually could be game changing for workplace pension provision. So, I think, apart from people like us, Nigel, who would lose, it's a win, win, win.

Nigel Mills MP: Right Steve, thank you very much for that, that was a fascinating discourse as normal. Gregg, your time is up. Thanks Steve. So our second speaker is Gregg McClymont who is the Shadow Minister for Pensions. Again I kind of welcomed Steve by saying it's been a bit quiet the pensions market recently, Gregg have you got any radical changes you can promise us if we have a Labour Government after May?