Response to the Work and Pensions Select Committee Report

The Future of UK Pensions

Department for Work and Pensions

The Future of UK Pensions

Reply by the Government to the Third Report of the Work and Pensions Select Committee, Session 2002–03 [HC92-I]

Presented to Parliament by the
Secretary of State for Work and Pensions
by Command of Her Majesty.

June 2003

Cm 5846

Introduction

1. The Government welcomes this report by the Work and Pensions Select Committee on *The Future of UK Pensions*, which was published on 12 April 2003. It provides a valuable contribution to what is a very important debate. The Government is grateful to the Committee for their tremendous efforts in this area and for demonstrating its clear commitment to building a consensus on the future of pensions.

2. Our immediate priority on coming to office was to tackle pensioner poverty. The measures we have introduced, including the introduction of the Minimum Income Guarantee (MIG), Pension Credit and above-inflation increases in the basic State Pension, mean the average pensioner household will be over £1,250 a year better off in real terms, compared with 1997.

3. We were pleased to note that the Committee endorsed our approach:

> *"We agree that the current policies have been successful in reducing pensioner poverty amongst those who get the Minimum Income Guarantee… The Pension Credit should help by increasing support to lower-income pensioners further…"*
>
> Work and Pensions Select Committee Report – *The Future of UK Pensions, Third Report of Sessions 2002–03* – Summary, paragraph 3, page 5.

4. Our priority for this term has been to help today's employees – tomorrow's pensioners – provide for their retirement. Decisions on pensions are some of the most important of our lives. The Government believes that pensions saving should be based on partnership, with employees, employers, pension providers and government all working together.

5. Better information about pension choices and the range of options are crucial if we are to fulfil our aim of helping individuals choose how they plan for retirement, how much they save and how long they keep working.

6. Today also sees the publication of the Government's response to the Green Paper *Simplicity, security and choice: Working and saving for retirement* consultation. In the biggest ever consultation on pensions, the Government organised a series of consultation events across the country, seeking the views not only of experts, but especially of the people at the sharp end who are thinking about retirement. We have received more than 800 responses and we have taken these views into account in developing the Green Paper response. The Government's response covers similar areas to that of the Select Committee's inquiry. Where appropriate, this report signposts replies to that response.

Conclusions and Recommendations

a) We agree that the use of the term crisis is unhelpful. While not wishing to minimise the real anxieties about certain aspects of state and private pension provision, we feel that it is important to recognise that the system of pension provision in the UK, as a whole, is basically sound. Many of the problems that current pensioners experience are being actively considered. There are some important issues that need to be addressed in order to help provide for sustainable pension provision in the longer term (paragraph 14).

7. The Government welcomes the Select Committee's comments. While recognising that the UK pension system is sound, there are, without question, some difficult issues that need to be addressed.

8. The Government's response to the Green Paper consultation is the first part of a rolling programme of action, and sets out how the Government will play its part in taking forward some of the key proposals described in the Green Paper. We will follow this up with further announcements in due course. As it has stressed on many occasions, it is not for the Government alone to provide the incomes that people desire in retirement, but to enable all its partners to play their part in planning for retirement. It will do this by:

- refreshing the legal framework for the pensions partnership to improve simplicity for providers and security for members;
- taking action to help people to stay in work until they choose to retire; and
- ensuring that the Government, as an employer, acts in the way we want to see all employers help their staff to plan for their retirement.

9. The Government hopes that the Committee will welcome the proposals in its Green Paper response and it looks forward to continuing to work collaboratively with the Committee to build consensus.

b) We commend the Government on their commitment to tackle pensioner poverty, and their achievement in reducing on three of the four measures in the Fourth Annual Report, but believe that there are still too many pensioner households in poverty, and call on the Government to continue to improve their incomes, in relative and absolute terms (paragraph 42).

10. The Government is pleased that the Committee recognises its commitment to ensuring that all pensioners have a decent income in retirement. The latest figures in the publication *Households Below Average Income 1994/95–2001/02* show that there have been reductions in the number of pensioners living in both absolute and relative low-income households. Most of the improvements on both measures have taken place in the last three years, reflecting the Government's initiatives to tackle pensioner poverty, such as the introduction of MIG, and the subsequent significant increases, and the introduction of Winter Fuel payments.

11. The Government has introduced a range of further measures, the effects of which have yet to be reflected in the statistics. These include above-inflation increases to the basic State Pension from April 2002, and the introduction of Pension Credit from October 2003 which will, for the first time, reward rather than penalise those who have saved.

c) **We believe that the current distribution of tax relief should be reviewed, especially in the light of the current debate on the abolition of higher rate tax relief, and that consideration be given to a system of matching contributions (paragraph 53).**

12. The Government already facilitates pensions saving by providing tax relief on pension contributions by both employers and individuals – it spent £13 billion net in 2001/02. The tax-free lump sum provides a strong incentive to save for retirement. The Green Paper signalled the Government's intention to re-brand existing tax relief on individual contributions to personal and stakeholder pensions, to illustrate more fully the generous matching top-up that these reliefs provide.

d) **We conclude there is nothing inherently wrong with a means-tested approach which focuses available resources on the poorest pensioners, if the issue of 'take-up' is adequately addressed (paragraph 63).**

13. The Government is committed to doing all it can to ensure that pensioners take up their entitlements. To demonstrate the level of commitment, it has introduced for the first time a Public Service Agreement target specifically related to take-up.

14. The Government's aim is to pay Pension Credit to at least 3 million pensioner households by 2006, with around 1.8 million MIG customers being converted to Pension Credit by October 2003. There will be a national take-up campaign to encourage pensioners to apply for their entitlement, which will involve:

- writing to all pensioners not already receiving MIG to help them to consider any entitlement to Pension Credit and to encourage those likely to be eligible to apply;
- working with local partners to make sure communications meet pensioners' needs, and developing joint initiatives to target those groups with known barriers (e.g., ethnic minorities, people with disabilities and customers living in rural areas); and

- reviewing the take-up position during autumn 2004 and to take any further action that may be necessary.

15. The Pension Credit application process has been designed to be straightforward. It involves a simple telephone call on a freephone number. People will be asked for information only for the purpose of working out their entitlement. They are then sent the form to sign and return to The Pension Service.

16. The Government is also pleased to report that research published in March this year – *Income Related Benefits Estimates of Take-Up in 2000/2001* – showed that the precision of the latest estimates of MIG take-up have been significantly improved. It also shows that there has been a significant increase – 3 to 4 percentage points – in take-up among the poorest pensioners. In addition, the report showed that the overall expenditure on income-related benefits for pensioners has risen – including a rise in MIG.

e) We recommend that the Government accept the Pickering recommendations on the legal framework for private pensions. We will consider the draft Pensions Bill in the light of his report's recommendations (paragraph 91).

17. Chapter Four of the Green Paper set out proposals that reflect many of Alan Pickering's recommendations. The Government agrees with the need for greater simplicity and reduced prescription in many areas of pensions legislation, a priority that has been generally underlined by the responses to the consultation on the Green Paper. The Government therefore intends to take forward some key aspects of the Pickering Report as part of its overall response to the Green Paper consultation. These measures include a new pensions regulator, which will take an active, risk-focused and flexible approach to pensions regulation, as Alan Pickering recommended. We are also proposing a significant easement of private pension schemes' ability to redesign and restructure accrued rights; a reduction in the level of indexation that schemes must provide; and simplifications in the requirements governing rights in contracted-out schemes, member-nominated trustees, and the resolution of internal disputes. In addition, the Government recognises the need for the consolidation of pensions legislation as soon as is practicable after the legislation stemming from our proposals is in place.

f) We recommend that the 'new kind of regulator' proposed by Mr Pickering be given specific responsibility and adequate resources to mount a nationwide education programme to explain to employers and employees the relative merits of DB and DC schemes. In the event of an employer wishing to reduce significantly the benefits of its pension scheme, we recommend that there should be a statutory duty on the employer to consult their employees and their representative body on the reasons for the proposed reduction, with provision for conciliation in the absence of an agreement being reached (paragraph 93).

18. The Government attaches a great deal of importance to raising awareness about pension matters, and is always interested in new and innovative ways of educating people and employers about the benefits of pension provision. In addition to the range of initiatives to help people make informed choices about their retirement plans, the new kind of regulator will concentrate more resources on education and guidance for trustees and pensions professionals. In particular, it will have ongoing contact with pension schemes, and will issue guidance and codes of practice, thus concentrating more resources on providing education to those administering, advising or running pension schemes.

19. In terms of the proposal in the Green Paper to require employers to consult their employees or employees' representatives, or both, before making changes to pension schemes, the Government is pleased to say that the proposal was widely welcomed. The Government is looking at the best means to achieve this alongside consideration of how to implement the European Union (EU) Information and Consultation Directive.

g) Savings gap estimates have a part to play, though not a major one, in assessing whether or not measures such as the stakeholder suite of products are successful in increasing savings. We believe that the recommendations of the Sandler Report for a suite of stakeholder products will go some way to increasing confidence and understanding of retail saving. We recommend benchmarks should be developed based on the total net capital value and ease of liquidity by future pensioners, rather than concentrating solely on traditional future pension provision (paragraph 103).

20. The Government welcomes the suggestion that a suite of stakeholder products will go some way to increasing confidence and understanding of retail saving. The Government has consulted widely on proposed product specifications, in parallel with a Financial Services Authority (FSA) discussion paper about potential sales regimes for the products. Assessing the demand for these products will form part of the independent research that Government has commissioned into charging structures. A response to this consultation will be published in due course. The Government also welcomes the Committee's views about liquidity, and will be making a separate announcement in due course on the options for a level playing field for the regulation of equity release and home reversion plans to protect consumers and to make the market work better.

h) We recommend that the FSA be asked to release to the proposed new regulator a number of its functions, especially those relating to marketing and education of pensions. We recommend that the regulator report progress to Parliament each year (paragraph 112).

21. The Green Paper proposed a new Pensions Regulator separate from, but operating alongside and complementing, the FSA. The FSA has a clear remit to regulate the marketing and selling of pensions, and the Government believes there is no added benefit in passing those responsibilities to the new regulator. The new regulator will, however, devote more resources to education and guidance within its new regulatory framework.

i) We recommend that the Government supports a pilot scheme to establish the likely effect of such programmes and the best way to provide such adult pension education (paragraph 113).

22. The Government recognises that financial education and literacy is an issue that needs to be tackled so that its informed choice strategy can be as effective as possible. By working in partnership, a real difference can be made. An understanding of the need to save can be created to ensure that people know how to save and manage their savings responsibly to meet their long-term goals. Providing people with the information they need to make informed decisions, and the help they need to understand and navigate the system, are at the heart of the informed choice strategy.

23. Therefore, in the coming months Government will work with the many partners, including regulators, employers, the industry, educators and consumer representatives, to build a robust and sustainable strategy for financial planning for the future.

j) We recommend that with each substantive change to state benefits for pensioners, an impact assessment on savings patterns is published and produced.

24. The Government agrees that it is important to have the best possible understanding of the potential impact on savings decisions of the State Pension system. This will continue to be a component of the Department for Work and Pensions' policy evaluation and, where the nature of any change makes it appropriate and feasible, we will provide an assessment of the potential effects when we announce the change. It is important to note, however, that it will often not be possible to produce precise and robust estimates of savings incentive effects. Savings patterns are affected by many other considerations, such as the state of the economy, the housing market and interest rates, and over the longer term people's behaviour can change in a way that econometrics cannot predict.

k) We recommend that the Government investigates the feasibility of providing combined projections for state and private pensions expressed in real terms and as a percentage of projected average earnings (paragraph 118).

25. All State Pension forecasts express the amounts of pension accrued to date and the projected entitlement to State Pension age in real terms at today's values. The majority of private and occupational pension scheme providers do the same or apply a 5 per cent, 7 per cent or 9 per cent illustration of growth to the projected entitlement.

26. The combined pension forecast service adds state pension information to the forecast of an individual's current occupational or private pension scheme, and is delivered through the employer or the provider. This service was formally launched in 2001, and the Government's response to the Green Paper consultation proposes to extend the coverage of combined forecasts by encouraging voluntary participation through concerted and targeted marketing activity.

27. The State Pension information given to employers and pension providers is based on a standardised calculation. This approach has been adopted so that end customers do not have to fill in a lengthy application form outlining the details which would normally be used to perform a comprehensive individual pension forecast, for example, marital history. One of the key benefits for scheme members/employees is that all they have to do is give their consent to their personal details being passed to the Department for Work and Pensions and, as a direct result of this simple action, their State Pension data should appear on their personal or occupational benefit statement, issued by the scheme provider as a combined pension forecast.

28. The information provided is personal to the individual to help them assess their current position and plan effectively for the future. All customer research conducted to date has shown that individuals prefer the statements to be short and factual, with an emphasis on the 'bottom line' – how much pension will I receive at pension age? We are not persuaded that moving away from this approach would be beneficial.

l) As in our Pension Credit report, we recommend increasing the earnings disregard within the Pension Credit. We recommend more generous inducements for pension deferral than currently exist and appear to be proposed within the Green Paper. We recommend the introduction, as soon as possible, of age discrimination legislation so as to give employers a chance to prepare fully for its introduction in 2006 (paragraph 123).

29. The Government wants to both promote opportunities for older workers and reward them for their earnings. It believes that the abolition of the 16-hours work rule with the introduction of Pension Credit and bringing forward the existing disregards in the income-related benefits, such as Housing Benefit and Council Tax Benefit, are the best way to promote active ageing and reward earnings.

30. With Pension Credit, for the first time many people will be rewarded for modest earnings just as for the first time many people will be rewarded for their savings. For example, a pensioner aged over 65, receiving full basic State Pension and earnings of £35 a week, would not be entitled to MIG currently but under Pension Credit he will be £12.65 a week better off, or almost £658 per annum. Our priority is the effective roll-out of Pension Credit through The Pension Service and ensuring high take-up of this entitlement.

31. The Government acknowledges the role of the State Pension in encouraging flexible retirement, and it is pleased to say that the majority of respondents to the Green Paper welcomed the Government's proposals to increase the rate of deferral for those choosing to delay the uptake of their State Pension, and the proposal to make lump sum payments to those who choose to defer. Work is under way to meet the commitment set out in the Green Paper to introduce changes by 2006.

32. This summer the Government will launch a consultation on options for legislation to implement the age strand of the European Employment Directive. The Government shall develop draft regulations in the light of responses to this consultation and shall consult on them in the first half of 2004. The aim is to lay the legislation before Parliament by the end of 2004, accompanied by guidance published at the same time as the regulations.

33. With the legislation coming into force in late 2006, this will give employers some two years to complete preparations for their new obligations, and it will allow individuals to familiarise themselves with their new rights.

m) We recommend the Government needs to look closely at improving the proportion of over 50s moving into work from the New Deal 25+ (paragraph 124).

34. The Government recognises the need to improve the job outcomes from New Deal 25 plus for people aged over 50. It intends to run a pilot study from 2004 for people aged 50 to 59 who have been claiming Jobseeker's Allowance for 18 months, and the Government will trial mandatory participation in the New Deal 25 plus Intensive Activity Period.

n) The Government has not responded to that recommendation and we ask them to do so within two months of publication of this report (paragraph 130).

35. The Government did, in its response to the Committee's Pension Credit inquiry, cover the relationship between State Second Pension and Pension Credit. In summary, the Government said:

"Pension Credit and the State Second Pension are complementary. Since State Second Pension rights will be rewarded in Pension Credit they will work together to greatly boost the retirement income of the most vulnerable future pensioners. This means that people within the Pension Credit income range will be able to benefit from both the State Second Pension and Pension Credit."

36. The Government's approach strikes a careful balance between providing a solid foundation of support for all pensioners while targeting support at those who need it most. A crucial aspect of the Government's approach in this latter respect has been the standardisation of the premiums to the highest premium in MIG. From April 2001, MIG was set at £92.15 (£140.55 for couples), which provided an increase of £12.45 (£16.55) a week for the poorest pensioners. This standard premium, uprated by earnings, has been brought forward into Pension Credit.

37. It is important to note that Pension Credit and State Second Pension are complementary. A person with a complete working life will be rewarded for his State Second Pension rights (or a contracted-out equivalent), which will result in an income higher than the guarantee credit. This means that a low-earner retiring in 2050 with a full working life will receive a weekly income of around £140 per week in constant earnings terms, compared to a guarantee credit of £102.10.

o) We recommend that the Government funds research into this to identify whether the means test reduces savings, and, if so, whether it is the possibility of being means tested or the existence of high withdrawal rates that has the greater effect (paragraph 147).

38. The Government agrees that it is important to have the best possible understanding of savings decisions and how savings incentives work. It is important to underline, in this context, that means testing is only one aspect of a more complex picture – savings behaviour is affected by many other things, including tax, non-means tested pensions and private pension structures. We want to engage with the academic and analytical community on how best to assess this complex overall pattern of influences on savings behaviour. In doing this, it will be important to understand the impact of the various influences which affect potential savers. These will include the information at their disposal; the way people choose to save between saving for their retirement or more immediate objectives; and the savings options available to them; as well as the interaction between tax and State Pensions and the operation of targeting.

p) We recommend that the Government considers whether the system of financial support for pensioners could be integrated further – perhaps by combining the tax and benefit systems for pensioners in the same way that has happened for the Child Tax Credit. The goal would be further to reduce the proportion of pensioners facing high withdrawal rates. Thought should be given to whether this integration could include Housing Benefit and Council Tax Benefit (paragraph 148).

39. The new form of income assessment within Pension Credit shares many of the objectives of tax credits, both by removing the need to report changes to income for a fixed period and by having a simpler administration process. However, pensioners are largely outside the group of people that tax credits are designed to help. Most pensioners do not pay income tax and very few of those receiving Pension Credit will be liable for income tax. Pension Credit itself is not taxable.

q) We recommend that the pensions commission, which is chaired by Adair Turner, should add to its remit an investigation of the long-term stability of the current State Pension policy, its relationship to the private sector and alternative policy options (paragraph 161).

40. We have set up the pensions commission to keep under review the effectiveness of the voluntarist approach and to make recommendations to the Secretary of State for Work and Pensions about whether there is a case for moving beyond this. The commission's remit is to monitor the progress of private pension provision and wider saving, and to help to improve the quality of data in this area. The commission may wish to understand the interaction between state provision and savings decisions, but it has not been asked to make recommendations on the state system. The original focus and purpose of the commission would be lost, and it would be diverted from its main task, if we broadened the commission's remit to include the entire structure of provision for pensioners.

r) We recommend that the Government look again at fresh incentives and new ways to promote stakeholder schemes collectively in the workplace, as well as reducing regulatory costs for stakeholder pensions with lower levels of contributions (paragraph 174).

41. Promoting schemes in the workplace is vital in encouraging and assisting people to save for their retirement. The Government is actively considering new ways to involve employers in the important task of helping their employees to prepare for their retirement, for example, through the work of the Employers' Task Force.

42. As mentioned in paragraph 20 above, the Sandler Report recommended that there should be a suite of savings products, including a pension product, that could be sold with a reduced level of advice. The Government published a consultation paper on the design of the proposed suite of products in February 2003 entitled *Proposed product specifications for Sandler 'stakeholder' products.* The paper recommended that the stakeholder pension becomes the pension product within that suite. The Government will respond to the results of the consultation in due course.

s) We believe that there is not yet a convincing case for employer or employee compulsion. We invite the pensions commission to investigate schemes based on presumption in the course of its inquiries (paragraph 182).

43. The Government is seeking to build on the long-standing and successful voluntary tradition in the UK. The pensions commission is one of the key steps being taken to make that work better. The pensions commission has been asked to assess the effectiveness of the UK's voluntary tradition, to monitor development over time, to report to Government and to make recommendations on whether it needs to go further.

t) We recommend that the Government also helps individuals to understand the appropriate level of savings required to achieve their desired level of pension at a particular date. We further recommend that employers be allowed to make membership of their occupational scheme a condition of employment as suggested in the Pickering Report (paragraph 183).

44. The Green Paper announced the Government's intention to introduce a Retirement Planner in 2004. This would be a web-based retirement planning service designed to:

- help citizens calculate how much money they should be saving for their retirement;
- estimate the total state and private pension they will get from existing schemes; and
- illustrate options available to address any shortfall.

45. The Planner would plot the effects of income needs against retirement income over the time period leading to retirement, and would demonstrate the effect of a series of 'what if?' scenarios, for example, deferring further saving or the effects of retiring at different dates.

46. The Green Paper indicated that we were considering Alan Pickering's proposal that employers should once again be able to introduce compulsory scheme membership so long as they were providing a contribution. The Government also recognised there would be a need for opt-out arrangements, for example for an employee who was already contributing to a personal pension and did not want to stop doing so. However, a number of respondents to the Green Paper consultation have pointed out that opt-out provisions, while necessary, effectively negate the concept of 'compulsory membership' and would introduce complexity, and, overall, would add little to the current position whereby new employees can become scheme members automatically unless they positively refuse to join.

47. The Government agrees with this view and it has decided not to bring forward legislation to make compulsory membership of schemes a condition of employment for all new members. We are instead considering how best to get more firms to introduce default membership in order to achieve a bigger effect on pension saving and preserve the individual's freedom to opt out of the scheme in the small number of cases where their circumstances make saving in an occupational pension unattractive.

u) We call for a statement from the Government on what it proposes to do in the meantime to prevent a minority of employers from winding up their schemes before the rule changes. We recommend that the Government considers reform of the statutory priority order within the pension scheme so as to achieve a more balanced distribution of assets, especially with regard to those nearing retirement; those who have been in the scheme for a long time; those who have newly joined; and those who are already retired who are in receipt of pension benefits. We feel strongly that employees deserve more protection than they currently receive when underfunded schemes are wound up (paragraph 190).

48. The Government is committed to increasing member protection, while taking care not to place unnecessary burdens on employers who provide defined benefit occupational pension schemes.

49. A central theme of the response to the Green Paper consultation is the strengthening of member protection, and it will improve the security of pensions by:

- introducing a new protection scheme to guarantee members a specified minimum level of pension when the sponsoring employer becomes insolvent;
- requiring solvent employers who choose to wind up their pension schemes to meet their pension promise on accrued rights in full; and
- revising the priority order which applies on wind-up to ensure the fairest possible sharing of assets.

50. The Government's response to the Green Paper consultation sets out in greater detail the Government's range of proposals in this area.

v) We call on the Government to say whether or not it would be prepared to act as ultimate guarantor of an insurance scheme. We urge the Government to announce its intentions on increasing security of pension funds soon. This is an issue to which we may wish to return (paragraph 190).

51. The Government plans to establish a compensation scheme that will be run by a statutory body known as the Pensions Protection Fund to protect scheme members whose firms become insolvent. Further details can be found in the Government's response to the Green Paper consultation.

52. The Government does not accept that it would need to act as ultimate guarantor of such a scheme. There are other ways of managing the scheme's liabilities. These include allowing the compensation scheme to run off its liabilities over time (to reduce immediate cash-flow pressures), adjusting the compensation levy depending on the circumstances, and allowing for the build up of surpluses in good years to help protect against the bad years.

w) We recommend that the FSA and Opra review the allocation of regulatory functions with a view to transferring as many as possible of the functions associated with pensions, for example the FSA's responsibilities in respect of marketing and education of pensions, to Opra and its successor body (paragraph 196).

53. See response to paragraph 21.

x) We recommend that the role of trustees should be substantially strengthened by more effective training. We also recommend an urgent review of independent trustees' charges and hope the Government will produce a new set of guidelines against which the reasonableness or otherwise of some charges may be judged (paragraph 197).

54. The Government agrees that effective training is a key component in ensuring that trustees are able to fulfil their important role in managing pension schemes. The Government's response to the Green Paper consultation states that the Government will bring forward legislation to provide that trustees be required to be familiar with the issues or have relevant knowledge across the full range of their responsibilities. Again, further details can be found in the Green Paper response.

55. In terms of trustee charges, current legislation enables independent trustees to take reasonable fees from the scheme that they are administering. It also requires them to disclose the scale of the fees that they have charged scheme members within the last 12 months.

56. While reference was not made to the fees charged by independent trustees in the Green Paper, it is an area to which the Government will be giving further consideration.

y) The public must have confidence in the way in which the private pension sector is regulated and be reassured that, if things do go wrong, swift action will be taken properly to investigate problems, learn the lessons, and give prompt and clear advice to individuals affected in order to enable them to protect their position from an informed standpoint (paragraph 198).

57. The Government recognises the importance of strong public confidence in its pension arrangements. The Green Paper response focuses on provisions which are designed to build trust and enhance understanding of the financial system, strengthen member protection, simplify the framework by modernising pensions law and introduce a new Pensions Regulator.

58. The new kind of regulator will be more proactive and risk focused, able to act more decisively in situations where there is the greatest risk to pension scheme members' benefits.

z) If people do not have confidence that their savings will be as safe as possible, nor that prompt corrective action will be taken in the event of failure, they will not save to the extent necessary for the achievement of the Government's long-term objective of greater reliance on private provision. We believe the issues that need to be addressed include: *provision for a public inquiry in the event of a major failure or serious liquidity problem of a private pension provider*; a clear role for the pension regulator in advising policy holders as to the action they should take; clear rules on the maximum 'clawback' a fund can retain from a policy holder wishing to transfer his investment elsewhere; public understanding of the regulator's role; the regulator's powers for earlier intervention and intensive monitoring of private pension providers; the case for annuity reform; and, in the event of legal disputes, a swifter system of resolution, including arbitration, independent adjudicators, and legal aid for the disposal of any general issues (paragraph 199).

59. The Government considers it of paramount importance that the implications and drivers behind individual scheme difficulties are fully understood. However, it believes that rather than making provision for inquiries around possible future events, the immediate priority must be to reform the regulatory system to prevent such problems arising in the first place, and to ensure that individuals are adequately protected should such difficulties arise. The Pensions Protection Fund and the Pensions Regulator will play a major role in this area. In particular, the Pensions Regulator will have a role in supporting confidence in the safety of pension schemes by protecting pension scheme members' benefits, promoting good administration, and providing education and guidance to pension scheme professionals. It will also be crucial that this body is enabled (through appropriate legislative measures) to focus on the real risks to members' benefits, and that it seeks out all suitable publicity opportunities for its activities.

60. However, no pensions regulator can directly influence stock market performance, and the new regulator's role will not extend to advising individual policy holders on specific problems. The FSA informs and educates the industry and the public about the sale and marketing of products, and the Pensions Advisory Service (OPAS) advises pension scheme members on specific issues.

61. In respect of private pensions provided by life insurers, Lord Penrose is likely to examine many of the issues covered by this recommendation as part of his inquiry into events at Equitable Life. Lord Penrose is expected to report this summer. And, finally, the consultation document *Simplifying the taxation of pensions; increasing choice and flexibility for all*, which the Government published alongside the Pensions Green Paper, included proposals for improving the operation of annuities to provide individuals with an even wider range of choice about how they use their pension savings. The consultation period ended on 11 April 2003 and the Inland Revenue are considering their response.

aa) We look forward to Lord Penrose completing his independent inquiry into Equitable Life, which we understand is unlikely to be published before July. We also understand that the Parliamentary Ombudsman, who is also conducting an inquiry into certain aspects of the regulation of Equitable Life, is expected to report in June. Although we recognise that the Treasury, Inland Revenue and Department for Trade and Industry also share responsibility for private pensions, we may wish to return to the issues for which the Department for Work and Pensions has responsibility after publication of the reports from Lord Penrose and the Parliamentary Ombudsman and the Government's response to our report (paragraph 200).

62. The Government notes the Committee's views.

bb) Given the complexity of the subject and the need to consolidate political consensus, we recommend that any forthcoming Bill on pensions should be subject to pre-legislative scrutiny (paragraph 201).

63. The Government recognises the advantages of submitting draft Bills to pre-legislative scrutiny, particularly, as is the case with pensions, where the subject matter is complex and technical. However, the Government is mindful of the urgent need for reform on a number of fronts in the pensions arena and the extensive consultation which has already taken place.

64. As Alan Pickering said in the introduction to his report:

> *"The finest testimony that we can provide for all those who have worked so hard on this project is to take their suggestions forward and implement the necessary changes as a matter of urgency. Time is not on our side. We all need a user-friendly pension system if we are to enjoy retirement rather than simply endure old age."*

65. The Government is receiving a clear message from all quarters that now is the time for action not further consultation. We agree it is imperative that the legislative framework for reform is on the statute book as soon as possible. Therefore, in the Government's view, a further round of consultation on a draft Bill would create an unwarranted delay.

cc) In assessing the future of UK pensions, we have considered the strengths and weaknesses of both state and private pension provision. The report makes a number of recommendations, which, as a package, aim to create an environment in which people are encouraged to plan sensibly and confidently for their future private pensions in the knowledge that there is a sustainable and adequate basic State Pension as a foundation (paragraph 205).

66. The Government is committed to ensuring that the basic State Pension remains as the foundation of income in retirement. It believes that its reforms to the state provision are affordable, adequate and sustainable and allow pensioners to share in the country's rising prosperity. The Government's response to the Green Paper now looks at creating a sustainable system of support which enables today's workforce – tomorrow's pensioners – to plan ahead and make decent provision so they can enjoy the lifestyle they want in retirement. The Government thanks the Committee for the efforts in this very important area, it is a valuable contribution and their views will be taken account of when taking forward proposals.

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