Chancellor urged to require schemes to invest minimum amount in UK growth assets

Move would boost growth and deliver better outcomes for pensions and the economy

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13 March 2023 • 3 min read

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Image: Ros Altmann: The chancellor should consider how to ensure all UK funds invest in a range of long-term assets

The chancellor should unveil "radical reforms" to require pension funds to invest minimum amounts in UK growth assets, Baroness Ros Altmann says.

The former pensions minister noted that, until the late 1990s, pension funds relied on high equity allocations - with actuaries and regulators all backing the view that equity investment was the most appropriate asset class for long term pension funds as they were expected to outperform bonds over the long run.

She said this strong domestic institutional asset base supported the City of London and UK growth - helping to create a thriving financial sector. But she said this all started to change after 2000 when actuarial thinking "turned 180 degrees" to suggest pension funds should have only bonds in order to better match their liabilities.

As a result, she said equity allocations had been slashed from around 80% or more, to less than 20% now.

Altmann said diversification to higher returning assets was "overdue".

She said: "Relying on bonds is, in my view, inappropriate for a long term pension scheme - especially if it is still open and taking in new contributions.

"This approach is meant to reduce risk but in my view this caution is reckless and the approach locks out higher expected return assets, in favour of assets that are supposedly lower risk, but proved not to be. That myth was shown to be false last year as bond prices were so volatile and markets plunged precipitately, wiping out hundreds of billions of pounds worth of value for UK pension schemes."

Altmann added the government would be right to require schemes to invest minimum amounts in domestic growth assets as it invests around £50bn a year in UK schemes through pension tax relief.

She said: "Apart from the lowest earnings in net pay schemes, every pension fund in the country has at the very least 25% of its assets from HMRC. Many funds have much higher proportions that originated from taxpayers and, with 25% being paid out tax-free in retirement, there is clearly justification for the government to require some of that money - perhaps 10% of each fund - to support long-term UK growth.

"I hope the chancellor will begin radical reforms to require pension funds to support UK growth. The chancellor should urgently consider how to ensure all UK pension funds invest in a range of long-term assets that can boost green growth, infrastructure, social housing and climate or nature preservation, delivering better outcomes for pensions and the economy."

Weighted average asset allocation for UK pension funds

	Equities %	Bonds %
1991	75	13
2001	71	20
2006	61.1	28.3
2009	46.4	37.1
2012	38.5	43.2
2015	33	47.7
2018	27	59
2021	19	72

Source: *Office for National Statistics*

This comes after the *Financial Times* reported that an influential group of City of London chief executives has called on chancellor Jeremy Hunt to enact reforms aimed at releasing more investor capital to support UK companies and boost the economy.

In a letter seen by the *FT*, the UK Capital Markets Industry Taskforce (CMIT) told the chancellor there was a "substantial opportunity to deploy more long-term UK pension capital into the growth drivers of the UK economy, delivering better returns for savers and faster growth for the country".

Last month, independent pension consultant John Ralfe - the man who masterminded the Boots Pension Scheme's 2001 shift from equities to bonds - said that the partial reshoring of Local Government Pension Scheme assets presented levelling up regeneration opportunities.

He said: "It doesn't seem to right to me that the Staffordshire Pension Fund, for example, has more invested in Silicon Valley than it does in Stoke on Trent."