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Could super funds salvage our retirements, and fix the damage from Gordon Brown's tax raid that ruined Britain's pensions, asks JEFF PRESTRIDGE,

- **Pension funds not investing in UK businesses or big infrastructure projects**
- **Blair's institute calls for PPF fund to be turned into UK's first 'superfund'**
- **Superfunds would be tasked with investing at least 25% of their assets in the UK**

By JEFF PRESTRIDGE FOR THE DAILY MAIL
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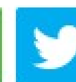
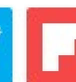
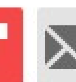
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There was a time in my dim and distant past when the UK was famous for more than its glorious monarchy, The Beatles, red buses and black cabs.

Worldwide, we were also renowned for the vibrancy and generosity of our company

pensions.

They were the envy of bigger nations — gold-standard pension schemes. Show-off pensions. Rule Britannia and all that.

Evolving in the wake of World War II, they were based on the premise that the longer you worked for an employer, the more attractive a pension you would get when you eventually retired.

You didn't have to worry about investing your pension and watching it grow — and fall — as stock markets fluctuated in value (the situation most pension savers face today).

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Backing Britain: Superfunds would be tasked with investing at least 25% of their assets in UK

The deal was simple and to begin with almost worry-free to employees — with the only risks borne by the employer whose job it was to deliver on the pension promises they had made.

It went as follows. For every year you worked, you accumulated a pension equivalent to a sliver of the salary you would finally retire on — back in the 1960s and 1970s, many people only had one employer throughout their working lives.

The more service you racked up with your employer, the more slivers of pension you bagged.

Indeed, it wasn't unusual for the most loyal of workers to retire into the sunset on a pension equivalent to two-thirds of their final salary — with the pension income often increasing annually in line with inflation.

These pensions, commonly known as defined benefit or final salary schemes, were all the rage in the 1960s and 1970s. At one stage in the late 1960s, 8 million workers were contributing into such schemes.

They were a perk, a mighty perk, a reward for loyalty and devotion to an employer.

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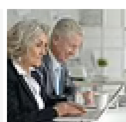
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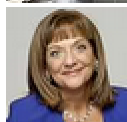
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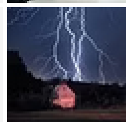
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When I first started writing about pensions in the late 1980s, most company arrangements were still provided on this defined benefit basis — as indeed were the pensions for those working in the public sector (controversially, they still are to this day).

Yet as people began to live longer (meaning pensions being paid for longer) and the UK economy went through radical restructuring (remember the Thatcher years?), the corporate case for such generous pension schemes began to fall away.

Many companies simply could not afford the pensions they had promised without pouring vast amounts of money into the schemes.

Slowly, firms began shutting funds to new employees in order to mitigate costs, in the process dividing old and new workers.

The golden pension haves and have-nots.

But this enviable pension system fell apart in truly spectacular fashion when Tony Blair assumed the Prime Minister's throne in 1997 with Gordon Brown sliding in alongside him as Chancellor of the Exchequer.

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Protest: Pension fears following the collapse of Allied Steel & Wire in Sheerness, Kent

With D:Ream's Things Can Only Get Better still ringing in our ears, Mr Brown dealt company pension schemes a body blow, from which many never recovered.

By stopping these funds shielding from tax 100 pc of the dividend income they received on their investments, Mr Brown holed the financially weaker ones under the water line.

By scrapping the dividend tax credit, pension funds lost out to the tune of £5 billion a year.

It compromised the ability of many schemes to meet their pension promises to members.

Not only that, companies were forced to take full responsibility on their balance sheets for future pension payouts.

The way these huge burdens were calculated — using rates on the bond market — was extremely punitive, and made little allowance for future returns.

It didn't take long for the stupidity of Mr Brown's move to show itself.

In the early 2000s, a number of companies such as Allied Steel & Wire in Sheerness, Kent, and Hertfordshire-based shelving manufacturer Dexion collapsed with pension funds that had insufficient assets to pay the pension income promised to workers when they retired.

Under law, the schemes were automatically wound up, leaving workers with the prospect of future pensions worth a fraction of what they had assiduously saved for.

Quite rightly, they were outraged and groups were formed, calling for the Government to act to protect those caught up in the scandal. I joined marches, vigils outside No 10 and worker protests all over the country.

Thanks to the magnificent campaigning of such action groups (the Pensions Action Group, especially), as well as the likes of Ros Altmann (now Baroness Altmann), Money Mail and The Mail on Sunday, Labour acted.

Reform: As Prime Minister and Chancellor, Tony Blair and Gordon Brown dealt a hammer blow to company pension schemes by stopping the 100% tax break on dividends

Alongside a financial assistance scheme for workers whose pensions had already gone up in smoke (set up in 2004), it launched the Pension Protection Fund (PPF),

designed to come to the rescue as other pension schemes were automatically wound up.

The PPF, set up in 2005, secured 90 per cent of the pensions part-lost as a result of companies going under with their schemes in deficit — 100 per cent in the case of pensions already in payment.

Vital as the lifeboat scheme was, it would do little to stop the rot caused by Mr Brown. In 2005, 7,800 defined benefit pension schemes were active. Today, just 450 of those are still open to new members — a decline of 95 per cent.

To save costs, employers have instead turned to so-called defined contribution schemes.

Here, your payout in retirement is based on how much you pay in and your return on that investment. Typically, these pensions are far less generous than defined benefit schemes.

And, crucially, all the risk of saving enough for old age has been transferred from large companies to us, their employees.

Meanwhile, the corporate failures — often linked to the weighty burden of an old pension scheme — have continued, with the pensions lifeboat called to the rescue time and again.

Today, the PPF is a big pension boy. It has assets of £39 billion. Over the past 18 years, thousands of pension schemes have been folded into it and it currently pays benefits to more than 269,000 people.

Of the £39 billion, £21 billion has come in from wound-up pension funds. The balance is made up of investment returns (an impressive average 9 per cent a year over the past decade) and income from a levy that surviving defined benefit schemes pay to ensure their members would be protected by the PPF if its assets had to be folded into the fund.

Whichever way you cut the PPF cake, it has been a great success. So successful, in fact, that there are now calls for its remit to be expanded by allowing healthy — as well as failed — companies to offload their pension fund assets into the PPF.

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Victims: The Blair and Brown reforms left many schemes unable to meet their pension promises to scheme members

Many of these schemes are currently going nowhere, closed to both new members and new contributions.

Such a move, say experts, would help support the wider economy by enabling the PPF to use its considerable financial clout to invest in UK businesses and big infrastructure projects — something most defined benefit schemes are unable to do on their own.

Crucially, as far as scheme members are concerned, they would have the comfort blanket of the PPF underpinning their pension — and an assurance that their existing pension benefits would be matched by the PPF.

In other words, they would be no worse off — and indeed better off if their scheme were instead to carry on alone, only to be wound up at a future date and then absorbed into the PPF.

It is rather ironic that the biggest agitator for such reform is the Tony Blair Institute, a non-profit organisation set up by the former Prime Minister to help governments (not here in the UK but worldwide) address major challenges. Yet, let's push that fact to one side.

In a report published last week titled 'Boosting Savings and Prosperity for the UK' — and as one of the authors opines opposite — the Institute argues that it is time for pension assets to be used for the greater good of the country.

It says that as a result of those regulatory interventions going back more than 20 years (it does concede the damaging impact of Mr Brown's elimination of the dividend tax credit in 1997), many company pension funds are no longer putting their assets to good use.

Rather than investing in UK businesses or big infrastructure projects which would help the economy grow and become more efficient, most of the funds are running scared.

They're conservatively invested, up to their gills in bonds, and doing precious little other than hobbling along in the faint hope of having enough assets to pay the pensions to members when they become due.

Many of the schemes would argue Gordon Brown's reforms as Chancellor have given them little option. Not only were they weakened by his £5 billion-a-year dividend tax raid, the move made it far less attractive to hold shares in British companies.

Added to that, regulations in the 2000s to make pensions a more significant burden on company balance sheets forced funds to become even more risk-averse. Quite simply, a run of poor returns on the stock market might suddenly make the fund seem such a gigantic liability it could bring down the entire firm.

So pension funds have increasingly turned to supposedly 'safer' assets such as long-dated bonds — for example, government bonds that won't mature for at least 15 years — where returns are lower but generally more stable.

The report spells this out in gruesome detail. Back in 2001, approximately half of all the money in pension funds was invested in UK equities, or £50 in every £100 set aside to pay pensioners.

Today, it is a pitiful 4 per cent — equal to just £4 in every £100.

Lifeboat: The Pension Protection Fund was launched in 2005 to come to the rescue asschemes were automatically wound up

The amount invested in 'safer' bonds has gone from 15 per cent of the fund to a mammoth 60 per cent. Pension fund returns have subsequently fallen from between 9 per cent and 10 per cent a year in the decade before Mr Brown's tax raid and the changes to balance sheet rules, to an average of 6 per cent a year and nearer 3 per cent over the past decade.

The report's authors claim this monumental shift in the way our pension savings are being used has contributed to the 'slow motion collapse' of the UK stock market as a global force.

It has curtailed growth and the development of new industries in the UK, and made our companies and critical infrastructure (think of energy and water firms) more vulnerable to takeover by deep-pocketed overseas investors.

That's why a new pensions revolution is needed, the authors say.

They suggest that the assets of the smallest 4,500 defined benefit schemes should be the first to be voluntarily absorbed into the PPF, turning the fund into the country's first 'superfund': GB Savings One.

The PPF's size and access to superior investment management would reap greater investment returns on the assets under its wing, ensuring members' benefits are honoured.

As for the sponsors of the schemes transferring in, they would no longer have a pension fund around their corporate necks like a financial millstone.

This would only be the start, says the Tony Blair Institute. GB Savings One would be followed by other iterations as the assets of the remaining defined benefit schemes would be transferred into another superfund. Indeed, it envisages a future where there could be half a dozen such meaty funds with assets of between £300 billion and £400 billion each.

Assets would then be drawn in from defined contribution funds, the Local Government Pension Schemes and 'potentially' public sector pension schemes.

The superfunds would be tasked with investing at least 25 per cent of their assets in the UK.

This approach has proved successful in Canada, which already boasts pension superfunds.

The benefit to the millions of savers now relying on defined contribution pensions (remember, this is where your retirement income is based on how much you invest and your investment returns) would be pooling the 27,000 disparate schemes in existence today into a powerful block of super-investors with the best management, much lower investment charges and — the great hope — higher overall returns as seen with the PPF.

It all sounds incredibly exciting — big multi-billion-pound funds investing in the UK's economic future, revitalising British industry and securing our own retirements.

I'm a fan. I really am, but only if this dramatic transformation of the pensions landscape is built around an irrefutable commitment to ensuring people's pensions will be safer and at least as big as promised under the current messy regime.

Maybe, it is time for D:Ream to reprise their hit song, but giving it a new title: Pension Things Can Only Get Better.

- Would you welcome new-style pension superfunds? Email: jeff.prestridge@dailymail.co.uk

Our pensions are broken. It's time for trailblazing funds that will make us all richer

By **MICHAEL TORY** and **PROFESSOR SIR JOHN BELL**

The UK's pension savings system is broken and long overdue for sweeping change.

That's how a report published last week began and which highlights how the UK has been so badly let down by a deeply flawed pension savings system.

It's one that has left the present generation short-changed and will see our grandchildren even worse off.

There is a solution, which if implemented, would be a crucial first step in reviving our ability to tap into, and scale up the UK's unrivalled creativity and entrepreneurial spirit.

We write this as two Canadians who have lived for many years in this country and watched with dismay as the UK's dynamism has been dissipated by the almost total absence of what is normally plentiful — financial capital.

Over the past two decades, the UK's reservoir of domestic equity to fund long-term growth and innovation has been remorselessly and needlessly drained — and is now almost empty.

The report's core recommendation entails rolling up the smallest 4,500 defined benefit pension funds (average size around £100 million) into an established and successful institution, the Pension Protection Fund (PPF). This would become the first of several GB Superfunds: GB Savings One.

With around £400 billion under management, it would take its immediate place amongst the world's professionally managed large scale pension funds.

More importantly, it would give UK pensioners dependent on the thousands of small, high cost and fragmented funds, the three crucial ingredients needed to underpin competitive returns.

These ingredients would ensure their funds' long-term security and stability — scale, diversification and best in class management.

A GB Superfund would also blaze a trail for other savings systems, including the local authorities, defined contribution payroll plans and, ultimately, for public sector pensions, which are currently completely unfunded.

The report recommends releasing hundreds of billions of pounds currently invested in low-return, but clearly not low-risk, bonds for productive redeployment.

This would include investing into listed UK companies that have for so long been starved of long-term growth capital. In turn, they could look to increase investment in growth and competitiveness.

The report also makes it a requirement that, to maintain pension funds' tax privileged status, at least 25 per cent of their assets would need to be invested in UK companies, a condition that would not be permitted under EU law and is therefore a new freedom arising from Brexit.

A GB Superfund would help keep at least some of the enormous value created by the UK's largely taxpayer-funded unrivalled university research engines.

The next ARM Holdings (a home grown Cambridge microchip supplier) or Immunocore (an Oxford originated biotech company) can remain in the UK rather than have no choice but to turn to American investors and the NASDAQ stock exchange for long-term capital to fund their development.

Pension security could improve for the current and next generations. Members of existing small, high-cost funds may be under the illusion they can rely for pension security on their companies in all circumstances.

However, many of the companies which provide 'guarantees' are, in fact, much smaller than the pension funds themselves.

Consolidation of these funds into the PPF will provide pensioners with the benefits of scale, diversification and skilled management to generate better returns — from an average of just 6 per cent from when they were attached to their corporate sponsors to average returns of almost 9 per cent.

A GB Superfund would protect and reinforce national security by reducing dependence on overseas capital for our most critical infrastructure.

Take, for example, high-speed rail, toll roads and renewable energy (including wind farms and solar power), life sciences, cyber-security and AI, plus much of our military industrial supply chain.