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Chancellor Jeremy Hunt boasts he can boost pensions by 12%... but what does his plan to invest retirement savings and hike UK growth mean for YOU?

- **Hunt wants to unlock billions of extra pension cash to support the economy**
- **He says plans to invest in riskier UK assets will make you £1k a year better off**
- **Some pundits are sceptical, but others say Chancellor is too unambitious**

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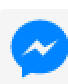
Share 

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'he Chancellor launched his plan to use pensions to boost UK growth with the bold assertion this will make the typical saver £1,000 a year better off in etirement.

Measures announced in the annual Mansion House speech are aimed at unlocking billions of pounds of extra pension cash to support the economy.

ndustry reaction ranged from calls for he Treasury to be even more ambitious, o raised eyebrows at some of Jeremy Hunt's more daring assertions about the benefits for savers.

One investing pundit points out it is hard o imagine a financial services company getting away with an unequivocal statement about a 12 per cent increase in uture returns.

Annual dinner: Chancellor launched big pension reforms in his Mansion House speech

Another commentator says it is dangerous to suggest this figure with such certainty, without mentioning the risks involved.

But there was applause for the Chancellor's overall goal to increase UK growth, and polite pledges to assist with the project, if only on a voluntary basis.

We look at what is proposed and whether it will work to boost the economy and generate higher returns for retirement savers.

· Will the Chancellor force pension funds to put YOUR retirement savings in risky UK stocks in a bid to boost economic growth?

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What do Chancellor's plans for pension funds mean for you? Six changes explained

. Nine of the largest defined contribution pension providers signed up to the **Mansion House Compact'** to allocate 5 per cent of assets in their default funds to ınlisted equities by 2030.

'he members are Aviva, Scottish Widows, L&G, Aegon, Phoenix, Nest, Smart 'ensions, M&G and Mercers.

These providers represent over £400 billion in assets and the majority of the UK's)efined Contribution workplace pensions market,' says the Treasury.

This could unlock up to £50billion of investment in high growth companies by 2030 f all UK defined contribution pension schemes follow suit.'

!. A new **Value for Money Framework** will nean investment decisions made by ›ension firms should be based on overall ong-term returns and not simply costs.

Schemes not achieving the best possible ›utcome for members will be wound up nto larger, better performing ones.

3. The **British Business Bank** will explore he case for Government to play a greater ole in establishing investment vehicles, o complement the £250million made ıvailable through its Long-term nvestment for Technology and Science Lifts) initiative.

4. New **Collective Defined Contribution**

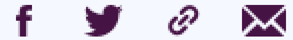
What's the difference between defined contribution and defined benefit pensions?

Defined contribution pensions take contributions from both employer and employee and invest them to provide a pot of money at retirement.

Unless you work in the public sector, they have now mostly replaced more generous gold-plated **defined benefit** - or final salary - pensions, which provide a guaranteed income after retirement until you die.

unds - a halfway house between final salary and defined contribution pensions - will be encouraged. The idea s that they can invest more effectively by pooling assets.

Defined contribution pensions are stingier and savers bear the investment risk, rather than employers.



5. A consultation will be launched on whether **Local Government Pension Schemes** should set an an ambition to double existing investments in private equity o 10 per cent, which could unlock £25billion by 2030.

The consultation proposes a deadline of March 2025 for all Local Government Pension Scheme funds to transfer their assets into LGPS pools and setting a direction that each pool should exceed £50billion of assets,' says the Treasury.

6. The Government plans to introduce a permanent **'superfund' regulatory regime** o provide employers and trustees with a new way of managing defined benefit pension liabilities.

t will also consult on how the UK's 5,000 defined benefit schemes and the Pension Protection Fund - a lifeboat scheme for any that go bust - can play in 'productive nvestment', while protecting savers interests and the 'sound functioning and effectiveness' of the UK government bond market.

What the Treasury says: You could end up £1k a year better off in old age

The Treasury claims its package of reforms could help increase pension pots for an average earner who starts saving at 18 by 12 per cent over their career - over £1,000 more a year in retirement – while supporting the UK economy, businesses, and jobs.

t adds that reforms will be guided by the Chancellor's three golden rules:

Secure the best possible outcome for pension savers

Always prioritise a strong and diversified gilt (UK government debt) market

Strengthen the UK's position as a leading financial centre to create wealth and fund public services.

Vhat do pension experts say? Time for revolution, not evolution

I would urge the Chancellor to be bolder n his welcome initiatives to ensure more of our domestic pension fund contributions are directed to benefit British growth,' says **former Pensions Minister Ros Altmann**, who now sits in he House of Lords.

Lady Altmann: It is time for the Chancellor to seize the opportunity to ensure more of our domestic pension assets are used to boost British growth

With a fiscal deficit soon exceeding 100 per cent of GDP, debt-servicing costs nounting, the attractiveness of UK inancial markets waning and domestic nstitutions radically reducing support or British assets, it is time for the Chancellor to seize the opportunity to ensure more of our domestic pension assets are used to boost British growth and pave the way for a stronger economy in the long-term.

It is time for revolution, not evolution, with more money being used at home, rather han leaking overseas.

Britain is falling behind in terms of productivity and technology funding, as well as eroding the once-robust domestic institutional asset base that supported UK companies.'

Lady Altmann adds: 'The Local Government Pension Schemes are fully underwritten by taxpayers and just trying to unlock £25billion by 2030 also seems relatively unambitious.

These pension funds could be harnessed to boost local housing projects across the country, to improve business conditions and infrastructure across the regions and still deliver good returns over time from a carefully constructed portfolio of assets spread across sectors and regions.'

inance firms wouldn't get away with claim of 12% boost to returns

At his Mansion House speech last night, the Chancellor announced plans to boost he allocations made by the UK's £2.5 trillion of pension funds into unlisted and earlier-stage UK growth companies, asserting this could unlock an additional £75 billion of funding for high growth business and making a surprisingly bold claim that eforms to defined contribution schemes "will increase a typical earner's pension by 2% of over the course of a career," says **Jason Hollands, managing director of DIY nvesting platform Bestinvest.**

It is hard to imagine that a financial services company would get away with making such an unequivocal statement about future returns, which are inherently uncertain.

The primary purpose of private pensions s not to help finance the domestic economy per se, but to secure a decent etirement for pension fund members.

> *"The primary purpose of private pensions is not to help finance the domestic economy per se but to secure a decent retirement for pension fund members"*

While it is stressed that the agreement by major defined contribution pension managers to allocate 5 per cent of default funds into unlisted companies is voluntary" in nature, the definitive claims about the enhanced returns for investors rom allocations to riskier companies needs to be treated with a dose of scepticism.

Returns in this space over the last 15 years have benefited from very low cost of capital when it comes to debt-financing – an environment we are no longer in - and nvesting in private equity carries higher costs.'

We need freedom to invest globally to maximise savers' pensions

We are talking about people's money here, and extreme care must be taken,' says **Martin Willis, partner at consultant Barnett Waddingham.** 'Unquoted equities bring additional and different risks in exchange for potential return.

It is critical that these initiatives are balanced with trustees being empowered to make the decisions that are best for their members.

To make the best decisions, trustees must have freedom of choice; this includes being able to invest in a broad range of assets.

While this might include Jeremy Hunt's preferred equities which will boost the UK economy, it must also include a focus on global investment opportunities to maximise value, as we see working well in Australia.'

Chancellor should be more ambitious in investment plans

While the intention to lower costs for investors and boost investment into UK infrastructure and high-growth businesses is sensible, Hunt's plan addresses only a tiny proportion of the UK pensions market and ignores the majority of defined contribution schemes and the entirety of the defined benefit market, not to mention public sector schemes,' says **James Baxter, founder of wealth manager Tideway Wealth.**

The overall UK pensions market is worth circa £2.5trillion, of which £50billon (Hunt's target) is a meagre portion. It's a step forward, but only a very small one.

"The overall UK pensions market is worth circa £2.5trillion, of which £50billon (Hunt's target) is a meagre portion. It's a step forward, but only a very small one"

If we want to do right by those saving for their retirements, and encourage sufficient investment into UK companies and infrastructure, we need to be more ambitious and more realistic about the effort and scale required of such an initiative in order to make a real difference.'

Riskier investments like private equity may perform badly

As far as generating higher returns for pension savers, the Chancellor's reforms are a shot in the dark,' says **Rebecca O'Connor, director of public affairs at finance firm PensionBee.**

The Government suggests that the approach will lead to an 'everyone's a winner' cenario, in which retirees get bigger pension pots and innovative UK companies get he capital they need to grow. But there are no guarantees this win-win result will lay out.

While riskier, early stage investments could generate growth and higher pension ots over the long term, there is also a chance that some of these investments may erform badly.

Earlier stage businesses are generally riskier and many of them could fail. This is why uch opportunities are usually confined to private equity, venture capital and lternative investors, who can stomach large losses.'

'Connor also analysed the Government calculations behind a potential boost to ension savers from investing in private equity.

The assumptions used by the Government were: average earner £30,000 salary, which increases 3 per ent per annum in nominal terms) and where they have a pension contribution f 8 per cent of their salary, with utcomes assessed after 30 years.'

he tweets: 'The document **Analysing he impact of Private Pension measures n member outcomes** states 'slightly igher returns' from private equity. Why nly slightly? The higher fees lowering he overall return.

This is particularly the case when ssuming a 2/20 fee structure (2 per ent per annum charge with a further 20 er cent performance fee for returns bove 8 per cent).

The conclusion is that this looks to be nore about funnelling capital into rowth than boosting returns to savers.'

Rebecca O'Connor: This looks to be more about funnelling capital into growth than boosting returns to savers

Claim of a 12% pension boost without mentioning risks is dangerous

'If it wasn't clear before now, Prime Minister Rishi Sunak and Chancellor Jeremy Hunt want to get the economy back on track, with a twin focus on cutting inflation and boosting growth,' says **Tom Selby, head of retirement policy at AJ Bell.**

'With the Government unwilling to borrow to fund greater levels of investment in UK Plc, it is turning to the estimated £2.5 trillion honey pot of pensions assets to do the heavy lifting.

'While this desire to corral pension money into the UK economy is understandable, there is a danger hard-working savers will simply be forgotten about in all of this.

'Claims from the chancellor last night that the average defined contribution pension saver will see their retirement pot increased by 12 per cent, or £1,000 a year, for example, as a result of greater levels of allocation to illiquid, high-risk investments are deeply concerning.'

> *While this desire to corral pension money into the UK economy is understandable, there is a danger hard-working savers will simply be forgotten about*

'It is, of course, possible that these assets will deliver greater returns than existing investments – but to suggest this with such certainty without mentioning the risks involved is dangerous.

'As these reforms move from consultation to reality, it is vital the structures that exist in the UK to protect savers, including regulators and trustees, remain entirely focused on the needs of savers, rather than the political goals of the party in power.'

Demands on investment risk-taking are in conflict

'When times are tough, history over the last 40 years shows that Chancellors will look to tap into the pensions piggy bank,' says **Ian Bell, head of pensions at consultant RSM UK.**

Widening the investment opportunities for defined contribution members is clearly a positive proposal, and will be particularly relevant for the younger generation with a longer investment horizon.'

But Bell adds there appears to be an issue of conflicting policy requirements on defined benefit pension schemes.

The Chancellor is looking for an "across the board" increase in the riskiest area of equity investment, while the Department for Work and Pensions and The Pensions Regulator require major de-risking, such as investment in gilts and investment grade corporate bonds rather than equities, including unlisted private equity or venture capital.

This creates a dilemma for pension trustees.'

> *"The Chancellor is looking for an 'across the board' increase in the riskiest area of equity investment, while the Department for Work and Pensions and The Pensions Regulator require major de-risking"*

Pension schemes should not be 'overly swayed' in any direction

Increasing the future value of members' pensions must be the top priority.' says **Kate Smith, head of pensions at Aegon**, one of the pension firms that signed up to the voluntary "compact" on UK investment.

It's right that trustees and others governing pension schemes remain focused on acting in members' best interests and this should include considering a wide range of investments, without being overly swayed in any particular direction.

Clearly the Chancellor is looking at a range of Government pension initiatives through a dual lens of improving member outcomes and supporting UK economic growth. We welcome the next steps to support this.'

Any reform must have savers' interests at its heart

We want to see successful, enduring pensions policies that help deliver better returns for savers as well as boosting the UK economy, and we fully support the Government's ambition to achieve this,' says **Dr Yvonne Braun, a director at industry body the Association of British Insurers.**

The focus on value for money and retirement solutions is very welcome and will enable schemes to make their own judgments and be accountable for them.

However, any market-shifting reforms, such as the proposals for collective defined contribution, superfunds, and the Pension Protection Fund, must be thoroughly considered so that they put savers first and don't undermine policies and markets that are working well.

Any successful pension reform must work for the long-term, be evidence-based and have savers' interests at its heart. We look forward to working closely with Government over the summer as it develops its plans.'

Pension funds already invest £1tn in UK assets

'It is important and very welcome that pension schemes' ability to direct their own investment strategy in the best interests of their members has been protected,' says **Nigel Peaple, director of policy and advocacy at the Pensions and Lifetime Savings Association.**

> *"Schemes will always be interested in exploring investments which have a strong likelihood of generating good returns, within their risk tolerances, and in the interests of their individual members"*

'As is widely recognised, investments totalling around £1trn by pension funds in UK assets already support economic growth and are a major source of long-term investment in the UK economy.

We welcome measures which improve access to a broad range of assets and schemes will always be interested in exploring investments which have a strong likelihood of generating good returns, within their risk tolerances, and in the interests of their individual members.'

Investment in certain asset classes should not be compulsory

'This package of measures must be set against the context that the primary purpose of a pension fund is to provide a retirement income for its members,' says **Debbie Webb, pensions board chair at the Institute and Faculty of Actuaries.**

'he fiduciary duty that a pension fund holds to its scheme members means that nvestment in new assets should only take place where longevity is weighed and here is an appropriate risk/return ratio.

It is important that these measures are carefully calibrated to match both growth equirements and policyholder protection concerns, and we would not be upportive of any initiatives that sought to compulsorily require schemes to invest in articular asset classes, or to consolidate.'

'rivate equity investment could boost returns for younger savers

The government's ambition for a 5 per cent allocation in unlisted companies to lead to a 12 per cent uplift in outcomes is to be applauded

'he Government's ambition for a 5 per cent allocation in unlisted companies to ead to a 12 per cent uplift in outcomes is o be applauded,' says **Paul Waters, ead of DC markets at consultant Hymans Robertson.**

We have been suggesting greater allocation to private markets for some time with our 10-10-10 statement: 10 basis points [0.10 percentage points] increase in charges could support a 10 per cent allocation to illiquid investments and at least a 10 per cent improvement in retirement outcomes for younger savers.

Vhile there are some differences in the detailed approach than pure private quity/start-up finance that the government is proposing, the principle is the same.'