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Chancellor should make savers put 25% of pensions in UK, says ROS ALTMANN

By ROS ALTMANN
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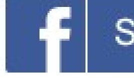
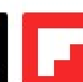
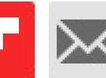
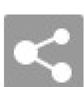
 Share   

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Other major countries invest pension pots far more heavily in domestic firms and it's time for Britain to take radical steps to do the same, according to former Pensions Minister Ros Altmann.

She urges Chancellor Jeremy Hunt to build on his Mansion House reforms to use pensions to boost UK growth - which attracted support, but also scepticism from some industry pundits.

At the time, Lady Altmann, a longtime pensions campaigner who sits in the House of Lords, said: 'It is time for revolution, not evolution.'

Here are her proposals to promote investing in UK Plc.

Ros Altmann: Investors can still put money overseas if they wish, but they should not expect taxpayer subsidies for boosting overseas economies

The Chancellor needs to be bold and harness the power of pension and Isa contributions to revive growth and flagging UK markets.

Both pensions and Isas come with generous tax breaks, but at the moment taxpayers spend huge sums subsidising people's investments yet not a penny has to be put into the UK.

Investors can still put their money overseas if they wish but they should not expect taxpayer subsidies for boosting overseas economies rather than our own.

Our pension funds and Isas can help the Chancellor out of his fiscal hole by investing more in Britain to revive British long-term growth, infrastructure and housing supply.

Right now, they have abandoned UK equity markets - see below for stark evidence of how little pension money is invested at home.

Ensuring 25 per cent of new pension contributions are invested in UK assets and launching a £10,000 Great British Isa would help to restore domestic investor support and should be a Budget priority.

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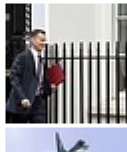
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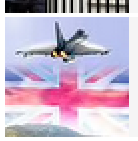
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Put 25% of pension in UK assets - or lose tax breaks

In the Budget, the Chancellor should signal an intention to require 25 per cent of new pension contributions to back Britain.

At least 25 per cent of each pension fund originates from tax and National Insurance reliefs - which now cost taxpayers £70billion a year - and 25 per cent of each pension is withdrawn tax-free.

In exchange for these generous tax subsidies, there is clearly justification for the Government to require more pension assets to support UK markets, infrastructure and economic growth.

This could improve long-term prosperity for pensioners too. If they want to put more than 75 per cent into overseas assets, pension investors can do so, but they should not expect a taxpayer subsidy for that.

"UK pension funds are heavily underweight in UK shares, unlike in other countries"

UK pension funds are heavily underweight in UK shares, unlike in other countries.

This seems to be a vote of 'no confidence' in our corporate sector, which damages confidence in UK markets as a whole.

Other countries ensure their pensions and tax-favoured investment funds are heavily overweight in their own domestic markets. Isn't it time for the UK to do the same?

The following table shows clearly how the UK is an outlier in international comparisons.

Other countries' pension funds heavily overweight their own assets:

Country	Domestic Equity	MSCI weight	Relative
Australia	37.7	1.3	2800%
Italy	41.0	0.6	6733%
Japan	49.4	4.4	1023%
France	26.0	2.7	863%
USA	63.5	43.2	+47%
UK	2.8	4.5	-38%

– source: Capital Markets Industry Taskforce, data as at Dec 2023

Meanwhile, the Chancellor's Mansion House reforms announced last year call for pension funds to voluntarily commit 5 per cent of their assets to unlisted companies by 2030.

These should be bolder in seeking to use pension assets to boost growth. None of the money even needs to be invested in the UK.

Surely the Chancellor could be more ambitious and expand these reforms so that pension funds are encouraged to invest more in both listed small growth businesses and unlisted start-up firms – based in the UK.

This would really boost our promising smaller companies and prevent the best being snapped up on the cheap by overseas rivals.

Let's support our businesses with a £10k Great British Isa

There have been strong calls for the Chancellor to announce a new Isa for 2024. Let's hope he will listen.

A £10,000 tax-free allowance that must be invested in UK assets could provide a boost for British businesses, which are languishing on low market ratings relative to the rest of the world.

We need a Great British Isa for a national boost, says JEFF PRESTRIDGE

A win-win, a must-must. A flag-waver

This would direct investment tax breaks to support Britain, rather than bolstering overseas companies and markets.

The forerunner of the Isa was the Personal Equity Plan (Pep) which had to be invested in Britain and it is time to revive that idea.

for Great Britain post-Brexit, a country that collectively we do down more than we big up, *writes Jeff Prestridge.*

> Bring on the patriotic Great British Isa

It could be a win-win-win situation, benefiting UK stock markets, improving investor returns and boosting the British economy with new investment.

Focus tax incentives and subsidies on UK investments

Investors can still invest in overseas markets, but taxpayer subsidies need to contribute once again to keeping the UK a world-leading financial sector.

UK institutional and private investors used to be a strong, reliable source of domestic support for UK companies, which helped create a thriving, world-leading UK financial sector.

However, in recent years, especially since 2008, pension funds have abandoned UK equities and other growth-boosting investments, buying more fixed income and overseas or alternative assets, leading to underperformance of UK markets.

Measures to require pensions and Isas to support Britain, using their tax breaks to benefit our own economy, could be a game-changer.

Bringing back stronger domestic demand can start a virtuous circle of recovery for British business and this week's Budget provides a real opportunity for a new path.

How do large global pension funds allocate investments: Only UK funds are underweight their own equity market according to this analysis of major schemes, says Ros Altmann

Examples of large global pension fund investment allocations – only UK funds underweight own equity market

Country and pension scheme	Allocation to domestic equity	MSCI - % weight in index	Relative weight
Canada – Public Service Pension Plan	8.9	3.2	+178%
Canada OMERS1	13.7	3.2	+326%
Canada - HOOPP	10.8	3.2	237%
Japan – Government Pension Investment	49.8	4.4	+1026%
Japan – Local Government Officials	49.1	4.4	+1010%
Japan – National Federation of Mutual Aid	49.2	4.4	+1012%
France - ERAFP	35.0	2.7	+1226%
France - FRR	17.0	2.7	+ 552%
Australia – Australian Super	45.2	1.3	+3303%
Australia – Future Fund	28.9	1.3	+2074%
Australia – Aware Super	39.0	1.3	+2836%
South Korea – National Pensions	34.2	1.3	+2600%
South Korea – Teachers Pensions	44.1	1.3	+3380%
US – California State Pension (Calpers)	60.1	43.2	+439%
US – New York State Common	68.9	43.2	+59%
US – New York City Retirement	61.4	43.2	+42%
UK – Universities Scheme USS	2.2	4.5	-51%
UK – Railways Pensions (Railpen)	3.3	4.5	-25%
UK - HSBC	2.5	4.5	-43%
UK – Parliamentary Pension Fund (PCPF)	1.7	4.5	-62%