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Ros Altmann: Labour must use the power of pensions to revive UK

Ros Altmann
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What must the new government do to revive financial markets and growth? Harnessing the power of UK fund flows into pensions and Isas would be an excellent start.

New chancellor Rachel Reeves has rightly expressed a desire to utilise the power of pension assets to boost domestic growth.

schemes have reduced government finances available for much-needed infrastructure and

sustainable growth investing.

Meanwhile, there are hundreds of billions of pounds languishing in unproductive assets in UK pension schemes and tens of billions of pounds a year being contributed to both defined benefit and defined contribution schemes, most of which are benefiting overseas markets more than our own.

> **"Significant amounts of tax and National Insurance reliefs are paid into pensions – £70bn a year – so there is a clear national interest in how this money is invested"**

The new government has already promised to review pensions and has rightly recognised the tremendous opportunity to use these domestic asset pools more productively. After all, significant amounts of tax and National Insurance reliefs are paid into pensions – £70bn a year – so there is a clear national interest in how this money is invested.

Sadly, pension funds have consistently cut exposure to the UK in recent years, weakening our economy and financial markets.

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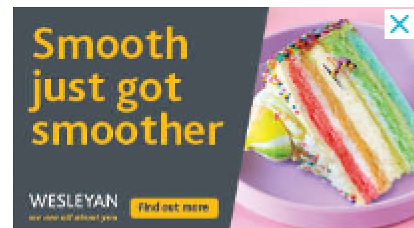

The pension selling pressure created a vicious circle, with market weakness deterring foreign investors and domestic funds then cutting further as the UK kept underperforming.

The new government can seize the opportunity to rebuild support for our own markets, bringing more long-term capital into growth-boosting and potential return-enhancing opportunities in the UK.

> **"Rebuilding UK pension flows into domestic growth assets could kick-start a virtuous circle, after years of disinvestment, de-rating and inadequate growth"**

Most major economies have fiscal constraints, so global competition to attract institutional capital and foreign direct investment has risen. Rebuilding UK pension flows into domestic growth assets could kick-start a virtuous circle, after years of disinvestment, de-rating and inadequate growth.

So, what should policymakers be considering?

Firstly, remove barriers deterring domestic, relative to foreign, investment. An obvious one is removing stamp duty. Other countries do not impose such costs on their share transactions.

Secondly, reconsider the UK regulatory over-emphasis on risk minimisation. Protections designed to benefit consumers are actually imposing significant costs, in the form of lower returns, less diversification of asset classes and restrictions to capturing different types of risk premia.

Disproportionate emphasis on lowest cost drives pension funds away from active management in assets such as real estate, infrastructure, alternative energy and venture capital specifically. Diversification across geographies is an inadequate substitute for asset class diversification.

> **"The government has a responsibility and a right to require a minimum amount of new contributions to be invested in UK assets – perhaps 25% or even more"**

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Consumer Duty diktats need careful review, including the impact of tougher financial advice rules (even for non-advised customers!), daily pricing, liquidity requirements and shorter transfer times, as the benefits of investing in less liquid, growth-boosting or sustainable assets is conflicting with daily pricing, speedier transfers and cost controls. Greater use of performance fees could help.

The ludicrous and misleading cost disclosures imposed on investment trusts – which are an ideal mechanism for long-term investment in illiquid assets – have caused losses to both retail and institutional investors, while destabilising a fund sector that could do so much more to boost returns and growth.

While removing barriers would be a good start, introducing new incentives is also important.

Channeling UK retirement savings into domestic growth makes economic and social sense, helping ensure pensioners retire into a better country.

Recent initiatives, such as requiring funds to disclose how much they invested domestically by 2027 and voluntary Mansion House commitments to early-stage capital (none of which must be in the UK) are far too weak. Much bolder measures are overdue.

> **"I'm in favour of merging cash, stocks & shares and innovative finance Isas into one annual allowance of, say, £25,000, of which a minimum percentage should be invested in UK assets"**

With public money so scarce and generous taxpayer contributions into pensions, the government has a responsibility and a right to require a minimum amount of new contributions to be invested in UK assets – perhaps 25% or even more. Assess the economic value of such enormous spending.

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The same applies to Isas. I am in favour of merging cash, stocks and shares and innovative finance Isas into one annual allowance of, say, £25,000, of which a minimum percentage should be invested in UK assets. This would simplify the system, while also boosting domestic markets.

Finally, it is time for the government to work with investment companies to develop long-term investment funds that support UK growth, including infrastructure, early-stage businesses, promising small or medium companies, social housing and sustainable energy projects.

National infrastructure funds, which can be transferred in specie and must be held for a minimum period, such as five or 10 years, could combine a range of projects across several types of assets.

These would be available for pensions and Isas, qualifying for tax-relieved investment vehicles.

Ros Altmann is a former pensions minister

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