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Govt should require 25% of new pension contributions to invest in UK

Baroness Altmann wants to see changes to government pension policy. © Getty Images

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The government should require at least 25 per cent of new pension contributions to invest in the UK as a 'quid pro quo' for tax reliefs, according to Baroness Ros Altmann.

Altmann argued there is a "clear justification" for the government to require this considering 25 per cent of a pension pot can be taken tax free.

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"This reform would not cost the government more money and could help revive our financial markets, as well as growth," said Altmann.

"These UK investments should encompass quoted larger or smaller businesses, as well as unlisted or early-stage companies, infrastructure and housing.

"I am talking about starting a re-rating of UK assets, which have become conspicuously undervalued in recent years.

"This could be a win-win for the country, both short and long term, setting up a virtuous circle to replace the doom loops of falling pension allocations and UK markets' underperformance."

Altmann claimed the London stock market has been weakened by pension funds opting to invest overseas.

She added: "Reversing this underweighting in pension fund UK exposure can help rebuild confidence in UK assets and markets more generally.

"This, in itself, could help boost growth, without additional government expenditure."

Tax relief

Altmann set out the tax relief afforded to pensions, which she said amounts to more tan £70bn of taxpayer money.

A quarter of pension funds can be taken tax free and no National Insurance is paid on pension income.

For this reason, Altmann said the government should require funds who receive the reliefs to invest at least a quarter of each new contribution into UK markets.

She said this could help boost growth as “quid pro quo”.

Altmann said: “It is time for revolution, not evolution, with more money being used at home, rather than leaking overseas.

“Britain’s productivity and technology funding have fallen behind other countries and the once-robust domestic institutional asset base that supported UK companies and markets has eroded.”

She said this is threatening the UK’s position as a global financial centre and reforms would help reverse this trend and increase national wealth.

Altmann concluded that reforming pension tax relief could be a “new dawn” for British markets and growth.

She said: “Introducing a quid pro quo of tax reliefs changes the whole equation. Most trustees or individuals would realise that the generous reliefs are likely to more than outweigh any expected UK underperformance over time. And as other countries are already doing this, it can hardly be called ‘protectionism’.

“Such reform would slowly increase UK pension fund exposure, help drive a re-rating of all UK assets and start to attract long-term investment capital from other overseas or domestic investors who currently underweight the UK due to past performance.

“This would drive down the cost of funding – with a consequential improvement in growth.”