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Govt urged to require UK investment in 'quid pro quo' for pension tax reliefs

By Sophie Smith 6/5/25

The government should "embrace bold pension reforms", Baroness Ros Altmann has said, suggesting that the government should require at least 25 per cent of new pension contributions to be invested in Britain as a "quid pro quo" for tax reliefs.

Altmann pointed out that the gross tax relief for UK pensions each year amount to over £70bn of taxpayer money, as individuals are able to take a quarter of all pension funds tax free, and no National Insurance is paid on pension income.

Given this, she argued that there is a "clear justification" for the government to require UK pension funds who receive these reliefs to invest at least 25 per cent of each new contribution into UK markets to help boost growth as a "quid pro quo".

"This is incentivisation rather than mandation," she clarified, suggesting that, if trustees or managers don't want the tax reliefs, they can invest 100 per cent overseas.

Altmann noted that this reform would not cost the government more money and could help revive the UK's financial markets, as well as growth, as these UK investments could 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," she said. .

[redacted]

"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."

Indeed, Atlmann argued that "it is time for revolution, not evolution", with more money being used at home, rather than leaking overseas, warning that Britain's productivity and technology funding have fallen behind other countries, while the once-robust domestic institutional asset base has eroded.

According to Altmann, the main drivers of the decline in UK allocations have been the de-risking of private sector defined benefit (DB) schemes and the shift across UK pensions to lower cost passive global market-weighted equity allocations.

However, she argued that, by "slashing" their exposure to UK public company shares, domestic pension funds have not only gone from being a natural support for the London stock markets, to an insignificant force, but are also giving up on higher expected returns.

"In any capitalist system, one of the bases of capital asset pricing is that higher risk assets will, on average, deliver higher returns over time," she argued.

"Other countries' pension funds have moved away from extreme reliance on fixed income assets, to embrace investment risk. But UK pensions have reversed their past over-weighting in equities."

Altmann argued that the switch of UK pension assets out of UK equities has also "fundamentally weakened" the London Stock Market, with declining demand, lower trading volumes, less dynamism and a substantial fall in the number of publicly traded companies relative to GDP.

However, she said that reversing this underweighting in pension fund UK exposure can help rebuild [redacted]