Government urged to compel 25% UK investment as 'quid pro quo' for tax relief

Baroness Altmann says bold reform will be a radical game-changer for UK growth

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Image: Altmann: It is time for revolution, not evolution. Photo: © House of Lords (CC BY 3.0)

The government should require at least 25% of new pension contributions to be invested in the UK, Baroness Ros Altmann says.

The former pensions minister said that, as at least 25% of each pension fund originates from tax reliefs and 25% can be taken tax free, it would be justified for the government to require schemes to invest this in the UK.

Altmann explained: "The gross reliefs to UK pensions each year amount to over £70bn of taxpayer money. A quarter of all pension funds can be taken tax free and no National Insurance is paid on pension income.

"There is, therefore, a clear justification for government to require UK pension funds who receive these expensive reliefs, to invest at least 25% of each new contribution, into UK markets to help boost growth as the quid pro quo."

She added: "This is incentivisation rather than mandation. If trustees or managers don't want the tax reliefs, they can invest 100% overseas, it is their choice."

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

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

Altmann continued: "Sadly, many in the pensions industry, as well as multi-national and passive fund management houses, are lobbying to insist that pension funds must be free to keep underweighting the UK and should not be incentivised in this way to increase their UK exposure.

"They suggest this undermines the fiduciary duty to obtain best member returns and that past performance does not justify such overweighting. However, 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."

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

The comments come as the government is poised to announce a new version of the Mansion House Compact in a bid to boost UK growth.

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%