My six-point plan to use private and local authority pensions to build back Britain - Ros Altmann

The UK has a tremendous advantage over other countries because we have always had a strong private pensions sector, with over £2 trillion in assets set aside for future pensions.

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Pensions could and should be a powerful part of our economic recovery, says Ros Altmann

As we build back after the latest economic shock, pensions could and should be a powerful part of our economic recovery.

I would encourage the Chancellor to consider the following six-point plan to ensure pensions are used to revive growth and make a great contribution to our economic future, for a green recovery and nationwide growth.

I would urge Government and regulators to revisit the current obsession with driving Defined benefit schemes to 'de-risk' and buy gilts, in competition with global central banks, as this seems to set up a possible 'doom loop' whereby employers put money in, the trustees buy more gilts,

the deficits increase further as rates fall and the consultants drive schemes to buy annuities.

This is great for insurers but not very good for individual pension schemes. As regards Defined Contribution schemes, the trend to daily pricing, quick transfers and lower charges also mitigates against using DC assets optimally for growth. Here are my suggestions:

1) Ensure DB pension schemes are offered attractive projects to boost infrastructure, green growth and social housing, offering better long-term returns.

By ensuring pension assets can boost growth across the country, the Chancellor could tap into a readily available domestic source of funding at no additional cost and with the upside of potentially fixing deficits much faster than relying heavily on gilts

2) Allow firms with Defined Benefit (DB) pension schemes, who have been ploughing huge sums into their schemes for the past few years as QE-induced interest rate falls have inflated their deficits, to take contribution holidays for, say, one year, so they can invest in their business recovery. This could be agreed with trustees to improve employer covenants and security of pension promises longer-term.

Of course, this would not permit dividend payments or large management bonuses, but companies would have to explain how they are using the money for growth or their business recovery. A one-year contribution holiday, in the context of the next 40 or 50 years of pension liabilities, would allow firms hit by the pandemic to boost investment in their longer term survival.

This would also save billions of pounds of public spending which would otherwise be required in tax relief on the deficit contributions. 60% of DB contributions are deficit recovery payments, and over the past few years they have been running at £10billion - £15billion a year for private employers.

3) Currently, it seems overseas pension schemes have invested far more in our infrastructure projects, generating good long-term and often inflation-linked returns, which our own schemes have not participated in, partly because they have been encouraged to 'reduce risk' to offset rising deficits. The Chancellor should ensure UK pension schemes are offered opportunities to invest in social housing and infrastructure alongside other investors, rather than assuming they will just buy gilts in order to 'de-risk'.

4) With interest rates at current exceptionally low levels, the trend towards 'de-risking' has set up a vicious spiral for DB schemes, whereby the QE-induced rising deficits in recent years have sparked a rush to 'de-risk' pension schemes, but this takes away some of the chance of earning better returns over time to improve scheme funding and pay the pensions. As schemes buy more gilts, and the central banks continue to purchase more sovereign debt as they improve QE, pension schemes have ended up competing for gilts and other high quality bonds at ever rising prices.

This has pushed yields down further which has increased scheme deficits, resulting in further demands for 'de-risking' which takes away more of the chance to earn better returns. Most DB schemes still have a 20 year investment horizon, yet their consultants seem to be turning into annuity brokers, rather than stewards of responsible investment.

5) Ensure that Defined Contribution pension assets can also be invested in long-term attractive growth-boosting projects. These can include investing in early-stage companies to increase emphasis on climate change mitigation, green growth, biotechnology, medical advances, infrastructure or social housing built-to-rent schemes.

In order to do this, the rules around DC pensions will ideally need to be adjusted. In particular the recent trends that have emphasised quick transfers and low charges do not suit such illiquid, long-term investments.

Therefore, the Regulators will need to help DC investors recognise that switching a pension from one provider to another does not need to be like a bank account and that these are long-term investments which may take time to move. The aim of pensions should be to generate good long-term returns over many decades, rather than having to keep money liquid in case customers want to move their money somewhere in the next few days.

6) Simplify the pension allowances system to prevent the increasing disincentivisation of contributions. There are far too many pension allowances, some of which undermine pension saving.

The Annual Allowance has been reduced significantly, it should not be cut further and the Tapered Annual Allowance rules, coupled with the Lifetime Allowance, are driving people either away from pensions altogether, or towards early retirement rather than continuing in work and contributing to the economy.

The Money Purchase Annual Allowance itself deters further pension investing, and seems to operate unfairly. If you only take the tax free cash from your pension, or if you have small pension funds with up to £30,000 in them you can keep contributing up to the full Annual Allowance.

However, anyone who may have lost their job during the pandemic and not received Government support, who has had to dip into their pension, will in future only be allowed to put up to the £4000 a year Money Purchase Annual Allowance into their pension. I would recommend that Chancellor should consider abolishing the Lifetime Allowance for DC schemes which has never made sense to me for pension savers, especially in DC schemes.

If we limit the amount people can put in each year, it makes no sense to them also prevent them from investing successfully for the long-term.

The wealthy older people who had already built up good pensions have been able to protect much higher amounts than the current £1.073million so the disincentive really impacts the younger or less senior workers who have not yet reached the ability to pay as much into their pensions so far. Even a £1million pension fund will only buy an inflation-linked annual pension income in the annuity market of around £25,000 a year.

Those who reached their limit in past years, and those in DB schemes, can accrue much more pension than the younger savers.

By Ros Altmann - UK Pensions Minister from 2015 – 16. She is a member of the House of Lords where she sits as Baroness Altmann of Tottenham.