Govt should consider one-year DB pension contribution holiday - Altmann

By Sophie Smith 1/3/21

Former Pensions Minister, Ros Altmann, has called on the government to consider a one-year contribution holiday for employers with defined benefit (DB) pension schemes and the removal of the lifetime annual allowance, in an effort to aid in the economic recovery post-Covid-19.

In a blog post, Altmann outlined a six-point plan as to how private and local authority pensions could be used to help support the recovery and boost growth at lower cost to taxpayers following the pandemic.

In particular, she argued that allowing firms who have been “ploughing huge sums” into their DB schemes for the past few years to take a one-year contribution holiday would allow them to invest in their business recovery and their longer term survival.

Furthermore, she stated that it could save “billions of pounds” in public spending that would otherwise be required in tax relief on deficit contributions, which make up 60 per cent of DB contributions, running at £10bn-£15bn a year for private employers.

She speculated that the holiday could be agreed with trustees to improve employer covenants and security of pension promises long term, clarifying however, that it “of course” would not permit dividend payments or large management bonuses, and would require companies to explain how they are using the money for growth or recovery.

Alongside this, Altmann has called for further simplification of the pensions allowances system in order to remove disincentives, arguing that there are currently too many pension allowances, and that some, such as the Money Purchase Annual Allowance (MPAA), are undermining pension saving.

Industry experts have previously warned that savers who have had to dip into their pension may be limited in rebuilding their savings in future as a result of the MPAA, with calls for its removal repeated ahead of the upcoming budget.

However, Altmann has recommended that the Chancellor consider abolishing the lifetime allowance for defined contribution (DC) savers, stating that if there is a limit on the amount people can put in each year it "makes no sense" to then 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 £1.073m 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,” she stressed.

In addition to this, the former Pensions Minister urged the Chancellor to ensure that DB schemes are offered attractive projects to rebuild the economy, such as infrastructure, green growth and social housing, offering better long-term returns.

She explained that 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", with the upside of potentially fixing deficits "much faster" than if relying on gilts.

Altmann has also recommended that DB pension assets invest in growth, rather than gilts, calling on the Chancellor to ensure that 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'.

She pointed out that defined contribution (DC) assets could also be invested in long-term attractive growth boosting projects such as social housing built-to-rent schemes or green growth, clarifying however, that rules around DC pensions will need to be adjusted for this.

"In particular the recent trends that have emphasised quick transfers and low charges do not suit such illiquid, long-term investments," she stated.

"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."

Her six-step plan also emphasised that DB scheme consultants should help boost scheme returns, warning that whilst most DB schemes still have a 20-year investment horizon, consultants seem to be turning into "annuity brokers".

Commenting on the recommendations, Altmann stated: "The UK has a tremendous advantage over other countries because we have always had a strong private pensions sector, with over £2trn in assets set aside for future pensions.

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

"I would urge government and regulators to revisit the current obsession with driving DB 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."