UK growth projects more challenging for DC schemes - Altmann

By Duncan Ferris 9/8/21

Defined contribution (DC) schemes will have a more challenging time increasing their levels of investment in UK growth projects than their defined benefit (DB) counterparts, according to Baroness Ros Altmann.

Altmann, a former pensions minister, made the statement after last week saw Prime Minister, Boris Johnson, and Chancellor, Rishi Sunak, challenge UK institutional investors, including pension funds, to make further investments in long-term assets to allow savers to benefit "from the fruits of UK ingenuity and enterprise".

She stated that DB schemes had more control over their long-term horizons, noting that DC schemes were instead expected to be able to price their funds daily and sell investments at short notice in order to meet redemptions.

As a tonic for this issue, Altmann suggested that "a portion of DC investments could be allocated to a series of national 'pension' infrastructure or growth funds", which would "offer long-term returns and do not have to ensure daily pricing or liquidity".

She explained that these would need to be transferred from one investor's DC fund to another in specie, with no pricing or selling available or expected.

Additionally, Altmann suggested that the contribution of pension schemes to the proposed 'Investment Big Bang' could be spearheaded by local authority pension funds, arguing that this could "help overcome their deficits and boost green growth directly as well as local infrastructure or housing".

She added that it was "sensible" for pension funds to be encouraged to invest in British growth as this could "deliver a less risky, more diversified stream of returns, including inflation-linked returns, and a better chance of outperforming liabilities".

However, she impressed the need for trustees to feel confident that they would not be penalised for backing British growth and noted that green gilts did not deliver the "upside returns that many pension investors need for long-term success".

Analysing the challenge as a whole, Altmann said: "It has been clear for many years that our domestic pension and long-term institutional assets have not been investing as much as they should and could in more diversified sources of return to support the British economy.

"While Canadian, American and Australian pension or endowment funds have benefited from many of the attractive infrastructure and private equity UK investment projects, well over £2trn of DB and around £200bn in DC domestic schemes have not broadened their investment horizons in the same way. They have not benefited much from such diversification and alternative investment risk premia."

Altmann concluded: "In summary, an Investment Big Bang, harnessing domestic institutional and pension assets, is a great idea, but there are some hurdles to navigate before it can be successfully rolled out. As we seek to recover from Covid and build back better, the opportunities are there for the taking."