ABI

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Four measures to boost UK growth through greater pension investment

Representing the full breadth of the UK pensions industry

The PLSA and ABI collectively represent the UK pensions industry, from defined benefit (DB) to defined contribution (DC) workplace pensions schemes, including master trusts and insurers. We jointly welcome the ambition we have seen from Government over the last 12 months for pension funds to play a greater role in supporting growth in the UK economy. We have previously outlined our respective policy priorities (**PLSA / ABI**) in relation to 'Pensions and Growth'. We will further develop these recommendations to ensure policy proposals work in the interests of the millions of UK workers saving into a pension for whom our membership safeguards £2.5 trillion in assets.

Four measures to encourage greater investment to boost UK growth

The pensions sector is complex. Workplace pension schemes consist of open and closed DB schemes, and DC schemes that operate under different legal arrangements. There are also individual personal pensions saving outside of the workplace. Policy levers which are needed for DB are very different to what is needed for DC, and it is vital to carefully consider not only the short-term implications of interventions, but also the long-term effect they could have.

We recognise that the Government has worked to address the views of the pensions industry to support UK growth. We support the Mansion House Compact as a positive step towards increasing investment in private markets and are actively involved in the Pensions and Private Capital Expert Panel to facilitate more DC pension investment into private assets. We were pleased to see the Chancellor's three golden rules announced in the Mansion House speech, particularly the onus placed on putting savers at the heart of any approach. More pension investment in scale-ups will certainly have an impact, helping them grow and thrive, and this is at the core of the Compact. Investments in other private assets such as private credit and infrastructure, also impact scale-ups and will help enable the UK to achieve its net zero targets if they are invested in climate solutions. The industry continues to work hard to find ways to diversify investments into less traditional assets to deliver the best consumer outcomes possible and help boost growth.

Whilst progress has been good, more needs to be done. We have identified four key measures which could help improve growth and which we are calling on Government to consider:

1. **Ensuring better adequacy in DC pensions and a bigger pool of investable capital –** Most private sector pensions are DC, but low contributions risk retirement shortfalls.
2. **Making regulations work better for investment and savers –** Regulation must make it as simple as possible to invest in illiquids where it is in the interest of savers.
3. **Increasing investment opportunities –** Developing an effective pipeline of assets with good risk reward profiles for pension schemes to invest in UK growth.
4. **Continuing to focus on consolidation –** Ensuring that consolidation takes place in the best interests of members.

1. Ensuring better adequacy in DC pensions and a bigger pool of investable capital:

Most private sector pensions are DC, but low contributions risk retirement shortfalls.

- The industry is seeking clarity on what the long-term strategic plan is for increasing contributions to DC pensions. We want to see more progress on how the Government plans to implement changes to AE contributions including:
  - Increasing contributions from 8 to 12% to help the adequacy of people's long-term savings, and help increase available capital for investment, including in the UK economy.
  - Placing greater emphasis on employer contributions.
  - Removing the lower earnings limit. The Bill has now been passed to remove the lower earnings limit and to start saving from the age of 18. We strongly encourage government to publish the expected consultation on when these changes will be implemented.

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2. Making regulation work better for investment and savers:

Regulation must make it as simple as possible to invest in illiquids where it is in the interests of savers.

- We were pleased to see that the DWP has made positive revisions to the DB Funding Code regulations which enhance flexibility, especially for open DB schemes. Importantly, it now clarifies that DB schemes can take appropriate levels of investment risk where supported by the employer covenant.
- For DC, we support taking actions to encourage pension decision makers to have a greater focus on performance rather than on cost. This includes ensuring that the existing value for money requirements for individual trust based schemes are appropriately scrutinised and that the new Value for Money framework applies to both TPR and FCA regulated firms at the same time and in the same way to ensure consistency.
- We continue to work with our members and the FCA to ensure that any barriers to private investments are identified and addressed.

The Government should monitor and regulate the quality of advice trustees and employers receive.

- The quality of external advice is crucial to decision making, both when trustees make investment decisions, and when employers choose a pension scheme for their staff.
- Investment consultants should therefore be brought within the regulatory perimeters of the FCA, to ensure strong and uniform standards across the investment management industry. This includes being brought into the new Value for Money framework.
- Further, the Government should look more closely at the decisions made by employers when choosing automatic enrolment schemes and the advice they receive from corporate independent financial advisers (IFAs), to ensure the recommendations are based on value for money and saver outcomes, rather than costs alone. Employee Benefit Consultants should

apply the same consideration to the advice they give to employers and should be regulated for the advice they provide.

Improving the UK's competitiveness for investor capital must put savers first.

- Supporting initiatives to improve the UK's competitiveness to attract investor capital is vital.
- While we support the Government and regulators work on ensuring competitiveness and a good environment for growing firms, this must continue to uphold high corporate governance standards.

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3. Increasing investment opportunities:

Develop an effective pipeline of assets with good risk reward profiles for pension schemes to invest in UK growth.

- We welcome initiatives like LIFTS and support the development of a Growth Fund led by the British Business Bank (BBB). The BBB, Government and the pensions industry should work together to understand what finance gap is preventing companies from scaling up and to identify priority investment sectors (such as green growth and impact investment).
- As well as the BBB, the UK Infrastructure Bank and the Scottish National Investment Bank are currently looking to crowd in institutional investment and it is important that the pensions industry works together with them, and other bodies, to fully explore the power of blended finance. This could help reduce risk and achieve investment grade of projects, or match assets to liabilities.
- Developing an understanding of the issues with all relevant parties involved will allow investment solutions to be targeted accordingly. We call on the Government and industry to continue with the spirit of collaboration to ensure there are industry forums for discussion around this issue. Meanwhile, we continue to explore whether there is a role for targeted fiscal incentives.
- As part of the Compact and beyond, the industry also continues to identify and address any barriers to investments in less traditional asset classes. Our organisations and several of our members are actively involved in the Pensions and Private Capital Expert Panel established by the British Private Equity and Venture Capital Association (BVCA). This Panel will assess and potentially develop market structures to facilitate the flow of capital into unlisted equities, address technical challenges and increase awareness and knowledge in the respective markets.

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4. Continuing to focus on consolidation:

- DB consolidation is already pressing ahead, and many more schemes are on course to buy-out with an insurer or successfully run on as an open scheme. DB Master Trusts and Superfunds

will also play a role in consolidating schemes. We recognise there are benefits to DB consolidation, and options must be robustly regulated to protect savers' outcomes and for that, legislation must be put in place. While we were disappointed to not see a Pensions Bill at the King's speech, we welcome Government's continued commitment to bring forward legislation for Superfunds to protect scheme members.

- The pensions industry recognises the need to build on existing consolidation of LGPS assets. It is vital that consolidation of LGPS assets into eight asset pools is done in a way that offers the right risk, return and cost characteristics and should be done at a pace that protects the value of the contributions paid in by employers and employees. We will continue to support LGPS funds to make investments in the best interests of their members.
- DC consolidation is already happening at pace, and we expect fewer schemes in the market by 2030. As the number reduces, so the size of assets in remaining schemes will increase, thereby making it easier for them to invest in unlisted assets efficiently and cost-effectively, as well as infrastructure. We are supportive of in-train regulatory changes, including the introduction of the Value for Money framework, which will continue this trend and increase focus on the performance of schemes' investments, and away from cost alone.
- We will be closely engaging with the DWP consultation on a public consolidator. Our members do have concerns around the market impacts of a public consolidator, including an extended role for the PPF. Consolidation of DB schemes already occurs in the private sector via insurer buy-ins and buyouts, DB Master Trusts and most recently superfunds. While we welcome the Government's intention for a public consolidator to not disrupt these markets, it's important that clear parameters and assessments are set so that this intention is realised. If the PPF is given the role of a public DB consolidator, the operation of it, including how it is funded, should be kept entirely separate to the current PPF fund.