THE SOCIETY OF PENSION PROFESSIONALS

making pensions work

Best of British?

What are the Government's planned pension reforms relating to British investments?

On 2 March 2024 the Chancellor announced pension reforms, "*…as a further step in the government's plan to boost business and increase returns for savers.*"

These reforms mean that by 2027 Defined Contribution (DC) pension funds across the market will be required to disclose their levels of investment in British businesses, as well as their costs and net investment returns.

These plans were again referenced during the Budget on 6 March 2024 when the Chancellor reiterated that the proposals will help British businesses and savers.

The proposals are subject to a consultation by the Financial Conduct Authority (FCA) and build on the Government's Mansion House compact, that "encouraged" pension funds to invest at least 5% of their assets in unlisted UK equity.

Concerns around the 5%

There is a broad consensus amongst the Society of Pension Professionals (SPP) members that the proposals could have the opposite effect.

Each of the main pension providers, covering over 15 million UK pension savers, already disclose their UK investments via Corporate Adviser magazine's annual Master Trust & GPP report[1] and have done so for several years.

The results confirm that those with higher UK equity weightings have typically underperformed those who have little or no exposure to the UK market.

This is further reinforced when noting that the FTSE All Share Index (made up of approximately 600 UK stocks) grew by 63% between 31 December 2013 to 31 December 2023 whereas the MSCI World Index has produced cumulative returns of 215% over the same ten-year period.[2]

Of course, past performance is no guide to the future, but in simple terms, the SPP questions whether compelling schemes to disclose their investments in British businesses may contradict the Government's focus on investment performance in its new Value for Money framework for DC schemes and in its proposed rules around schemes needing to compare investment performance data against two comparator schemes with assets in excess of £10bn. If a scheme knows that investing in British businesses may produce worse returns than investing overseas, should they still invest?

This additional pressure on trustees to invest in UK equities also erodes their discretionary decision-making powers and their focus on investing assets in the best interests of members.

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[1] **Master Trust & GPP Defaults Report 2023:** https://forms.zohopublic.eu/ricardomedina/form/MasterTrustGPPDefaultsReport2023/formperma/wl2Li_0FNQZYKtL3gXNAQ8E4MJsuPRWuyG_98kuA8Z4

[2] **LSEG Lipper Data & Analytics, December 2023:** https://www.lseg.com/en/data-analytics/asset-management-solutions/lipper-fund-performance?utm_content=LSEG%20Brand%20Product-UK-B-EN-ALL&utm_source=bing&utm_medium=cpc&utm_campaign=748915_LipperBrandProductPaidSearch2023&elqCampaignId=20669&utm_term=lseg%20lipper&gclid=027959ca859f187890a93c37f2af4663&gclsrc=3p.ds&msclkid=027959ca859f187890a93c37f2af4663

Disclosure – an empty benefit?

The Government also states that ensuring pension funds publicly disclose where they invest, and the returns they offer, will make it possible for employers and savers to compare schemes and make informed choices. However, it is not clear what savers or employers would be expected to do with such information.

Furthermore, it appears that the FCA does not see the disclosure of UK investment necessary to prevent or address any specific consumer harm. The Financial Times recently reported that the FCA had *"…pushed back because there was no evidence that consumers or markets were being harmed by the absence of such disclosures…"*[3]

The reporting burden as described appears to be disproportionate because many DC pots are invested in unit funds – where the underlying investments may be changing rapidly. Practically, the most companies could do is report on what proportion the investment manager is targeting for a fund. The actual proportion held in UK equities for a particular member's pot will vary by member as they get older and different investment drivers come into play.

Conclusion

Amanda Small, member of the Society of Pension Professionals DC Committee, said:
"The SPP appreciates policymakers' ambition to unlock capital for UK companies, but Government must be careful that a new reporting obligation like this does not inadvertently channel DC schemes' investments into UK-centric asset classes that currently neither reflects a robust investment case or meets trustees' requirements for diversification, sufficient risk-adjusted returns and avoidance of concentration risk.

This additional disclosure obligation will not drive the right behaviours and achieve trustees' overarching objective, which is to provide good outcomes for members.

If the Government wants to encourage greater investment in UK companies then these companies need to offer better risk-adjusted investment returns. Ultimately this is the key driver of trustees' investment decisions."

About The Society of Pension Professionals
Founded in 1958 as the Society of Pension Consultants, today SPP is the representative body for a wide range of providers of pensions advice and services to schemes, trustees and employers. These include actuaries, accountants, lawyers, investment managers, administrators, professional trustees, covenant assessors, consultants and pension specialists.

Thousands of individuals and pension funds use the services of one or more of the SPP's members, including the overwhelming majority of the 500 largest UK pension funds.

The SPP seeks to harness the expertise of its 85 corporate members - who collectively employ over 15,000 pension professionals - to deliver a positive impact for savers, the pensions industry and its stakeholders including policymakers and regulators.

Further information
For more information about any of the above, please contact Phil Hall, Head of Policy & PR at: phil.hall@the-spp.co.uk or on 07392 310264.

- To find out more about the SPP please visit the SPP web site: https://the-spp.co.uk/
- Connect with us on LinkedIn at: https://www.linkedin.com/company/the-society-of-pension-professionals/
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1 May 2024

[3] **Financial Times, 29 February 2024:**
https://www.ft.com/content/0a2d2dae-f82c-4d50-84e1-53e4c226cc6a