PENSIONS AND LIFETIME SAVINGS ASSOCIATION

113 October 2023

Rt Hon Jeremy Hunt MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
SW1A 2HQ

Dear Chancellor,

RE: 2023 AUTUMN STATEMENT

The Pensions and Lifetime Savings Association (PLSA) welcomes the opportunity to submit views in advance of the forthcoming 2023 Autumn Statement.

The PLSA's is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement. Our submission concerns two key topics:

Pensions supporting growth: Pension funds already invest over £1 trillion in the UK economy through ownership of shares, corporate bonds, government bonds, and alternative investment assets such as property, unlisted equity and unlisted debt. At the upcoming Autumn Statement, we are calling on the Government to adopt 6 policy, regulatory and fiscal measures to help attract UK pension funds to invest in UK economic growth.

Pensions Adequacy: While we are very pleased that the Government has recently adopted an amendment to Automatic Enrolment which will increase pension contributions and those included, we believe that further action is needed before everyone in the UK can look forward to an adequate income in retirement. Therefore, we ask the Government to adopt a roadmap to extend automatic enrolment over the next decade to include a wider group of people and higher contributions, so that contributions rise gradually from 8% to 12%.

If you, or your officials, would like to discuss any of the issues raised, please do not hesitate to contact Katy Little (Parliamentary and Stakeholder Manager) katy.little@plsa.co.uk in the first instance, and I would be pleased to help in any way I can.

Yours sincerely

Nigel Peaple, Director of Policy and Advocacy

Pensions and Lifetime Savings Association

The Role of Pensions in Encouraging UK Growth

Pension funds already invest over £1 trillion in the UK economy through ownership of shares, corporate bonds, government bonds, and alternative investment assets such as property, unlisted equity and unlisted debt.

They are open to investing more in UK growth provided the assets have the right risk / return characteristics and they offer appropriate diversification of investment risk. When investing pension fund assets, it is essential that the investments meet the needs of pension scheme members who rely on them for their retirement income. This is why we believe that Government should not direct the investment of pension funds.

As the Government is aware, investing in productive finance is not suitable for all types of pension schemes. Such assets are best suited to open DC and open DB schemes (private sector or funded public sector), which have long investment time horizons, rather than to closed DB pension schemes which need investment assets that are not liable to sudden fluctuations in value.

The PLSA believes the right way to quickly encourage pension funds to invest in UK growth is for the Government to undertake the following reforms:

- **Pipeline of Assets**: Ensure there is a stream of high-quality investment assets suitable for pension fund needs. The British Business Bank should be given the task of identifying and providing UK productive finance assets. These should not only include unlisted equities but also other related assets such as unlisted debt and infrastructure. The Government should also support action by the asset management industry in providing suitable Growth Funds or investment vehicles, such as the LTAF.

- **DB Regulation**: The funding regulations that apply to DB pension funds should be amended to provide greater flexibility over their investments. In particular, DWP regulations and the related TPR DB Funding Code should allow open DB pension funds, and closed DB pension funds with long investment time horizons, to take more investment risk (appropriate to protecting member benefits). For example, the regime should allow them to place more reliance on the support of the sponsoring employer, more flexibility over the discount rate used, and not force schemes to aim for the "low dependency" funding target.

- **Taxation:** Fiscal incentives should be introduced that make investing in UK growth more attractive than competing assets. We would like the Chancellor to make the following changes: allow tax free dividends on investment by pension funds in UK companies, and provide additional tax incentives, like the LIFTS initiative, in UK start-ups and companies requiring late-stage growth capital.

- **Consolidation**: Larger schemes, for example, those with more than £25 bn to £50 bn of assets have considerable governance capability and find it easier to invest directly, or alongside others, in "productive finance". However, it is important to remember that such assets can be made accessible to much smaller pension funds via the products offered by the asset management industry, eg LTAFs, or by Government initiated entities such as the British Business Bank. Nevertheless, there are measures that Government can take to encourage and support further consolidation:

  - For DB pensions we ask the Government to support the DWP proposal that primary legislation be adopted by Parliament in order to establish a secure and appropriate regime which will enable the growth of DB Superfunds.
  - For DC pensions, the Government should continue with its plan to introduce Value for Money (VFM) tests and take forward the Small Pots initiative as a way of supporting the

consolidation of DC pensions in a manner that will meet members needs. (It is important to remember that the DC pensions market is already consolidating rapidly as a result of the market forces unleashed by the introduction of automatic enrolment. Today there about 40 large providers or pension schemes and we estimated these will fall to around half that number by 2030.)

- In the case of the Local Government Pension Scheme (LGPS), an increasing number of Pension Funds have already committed to investment which can be classified as "Levelling Up" investments, including £27 billion invested in infrastructure assets. The Government recently consulted on its proposal that all pension fund assets should be transferred to the eight asset pools by April 2025. We believe that undertaking the transfer so quickly will result in loss of value to local authorities, scheme members and the funds. Therefore, while every effort should be made to transfer assets quickly, a specific deadline for completion should not be set. Instead, we suggest a "comply or explain" regime would be better. We would also urge the Government to support and fund the implementation of the LGPS SAB "Good Governance Review" as we believe that it will help pension funds and asset pools take effective decisions on investment matters.

- **Market for DC Under Automatic Enrolment**: The operation of the market in which employers and trustees select their DC pension funds for automatic enrolment purposes must be reformed so that there is less focus on cost and more on performance. In addition to the action already being taken by the Government on introducing Value for Money (VFM) tests we believe the advice by corporate IFAs and Investment Consultants to employers on pension schemes should focus more on performance rather than cost and be aligned with achieving the long-term interest of savers.

- **Raising Pension Contributions**: Increase the future flow of assets into pensions by gradually increasing the level of pension contributions under automatic enrolment from today's 8% of a band of earnings to 12% of all earnings starting in the mid-2020s and finishing in the early 2030s. This action will also significantly increase the volume of saving in UK shares and other growth assets.

Supporting Pensions Adequacy

Automatic enrolment (AE) is a UK public policy success story and enjoys widespread support across all political parties and the pension industry. Thanks to AE, millions of people who had not previously saved into a pension scheme are now setting money aside for their retirement. It is imperative for the future retirement security of savers that AE continues to succeed and enjoy high levels of support.

However, our research finds that without reform more than 50% of savers will fail to meet the retirement income targets set by the 2005 Pensions Commission and around a fifth will not achieve the Minimum level of the Retirement Living Standards. Without further policy intervention, most people in the UK will retire with an inadequate pension income. Over the last year, the Government has begun to take action to address this shortfall, in particular, by introducing legislative reforms to the automatic enrolment regime so that people will save from the first pound of pension saving and from age 18 rather than age 22. This is very welcome but, we believe that more action is needed.

A year ago, we set out **Five Steps for Better Pensions**:

- **Set new goals for the UK pensions framework:** adequate, affordable and fair.

- **State Pension**: The state pension should protect everyone from poverty and its value should be maintained by keeping the Triple Lock.
- **Gradually increasing contributions**: More people should be saving into a workplace pension and at higher contribution levels. Over the next decade contributions should rise gradually from 8% to 12%. While employees should only be required to put in 1% extra, we believe employers should put in 3% extra, with the result that by the early 2030s each will be paying 6%, totalling 12%.
- **Under pensioned groups**: Additional help should be given to under-pensioned groups such as women, the self-employed, gig economy workers and others. Some of these will require changes to automatic enrolment or other interventions.
- **Industry initiatives:** The pensions industry and employers should take action to help people engage with pensions, receive higher contributions, or get better pension outcomes. This includes maintaining initiatives such as the Retirement Living Standards and the Pay Your Pensions Some Attention campaign.

There has been increasing speculation that the Government may look at scrapping the triple lock, given that inflation uprating this year will reach a level of 8.5%. **We would urge the Government to confirm its commitment to the triple lock policy, given that the state pension makes up the majority of most people's retirement income.** It is important that the state pension ensures, at a macro level, that no one is at risk of poverty in retirement. Provided the Government maintains its commitment to the Triple Lock, the combination of the State Pension and automatic enrolment contributions of 12% (as we propose) should be sufficient for most people on median earnings to have an adequate pension income. If and when the Triple Lock mechanism results in the State Pension reaching the level of our **Retirement Living Standard** Minimum value (£12,800) this should become the "permanent" or "target" level for the State Pension.