Putting investment at the heart of pensions

Jonathan Lipkin highlights the key changes required to improve pension fund investment opportunities

The UK pensions industry stands at a moment of pivotal change.

Sweeping regulatory reforms, alongside an ambitious growth agenda from the Labour government, means pensions are high up the agenda for policymakers and businesses alike.

Phase one of the Pensions Review has had a clear focus on investment issues, challenging the investment and wider pensions sector to articulate a vision that will deliver both better pensions and stronger capital flows into the UK economy.

Value, diversification and scale

In our view, three key changes will help ensure that pension schemes can invest better:

First, price and value are not the same thing. If DC pension scheme members are to achieve good outcomes, a new focus on long-term value must be visible in scheme decision-making practice, and the automatic enrolment market must be supportive of such practice.

Second, as capital markets evolve, pension schemes must be able to take advantage of new opportunities, whether in private or public markets. A range of measures, including the advent of the Long-Term Asset Fund, are facilitating greater DC access to private markets, but there is further still to go.

Third, consolidation within the pensions system – whether in DC or Local Government Pension Schemes – will help facilitate 'sophisticated scale', enabling the highest standards of investment governance and the most effective deployment of capital, both into the UK market and beyond.

Encouragingly, there is an increasing consensus on all three of these points among government, regulators and a wide range of stakeholders. With detailed consultation now underway, we have an important opportunity to ensure that enabling measures are effective and well targeted.

These changes will not alone fundamentally change the size of domestic risk capital available to support domestic projects. But they will provide a world-class investment foundation for the future, on which other measures to improve the supply of funding for UK companies and projects can be built.

Addressing pension adequacy and wider confidence

Pension scheme members – many millions of UK citizens – have been given significant responsibility for determining both how much to save and, eventually, how to take a retirement income. The most sophisticated investment strategies will not make up for the expectations gap that will arise from contribution levels that are too low. We need to do much more to help people through this, given estimates that 12.5 million working-age people still under saving for retirement.

There is no one-size-fits all approach, whereby an increase in auto-enrolment default contribution rates from the current 8 per cent will solve the problem. The Second Phase of the Pensions Review will need to consider how best to solve for appropriate rates best suited to peoples' circumstances, rather than simply higher ones.

The other critical aspect is the support received by those coming up to, and moving into, retirement. A major step forward to improve the ability of the industry better to help customers is now underway with the Advice Guidance Boundary Review (AGBR), and the newly-launched consultation paper (CP24/27) from the regulator on targeted support reforms for pensions is an opportunity to start building a better-adapted system. Getting the AGBR right is essential both for pensions and the wider retail market, where building better confidence and knowledge among UK savers and investors will have wider benefits.

What to expect in 2025

As we look to 2025, the UK pensions industry is at a critical juncture, where proactive reforms and collaborative efforts across government, regulators, and the industry could be extremely beneficial for shaping a more dynamic and supportive environment for savers.

By addressing these key considerations such as scale, long-term value, and diversified investments, and fostering a culture of informed risk-taking and better support for retirement decisions, we can improve retirement outcomes and ensure that UK savers are better equipped to secure their financial futures.

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