



# The balance of power

➤ **Has government now become too deeply involved in the process of running the UK's pension schemes? It is surely a good thing for the government to recognise the importance of the sector, but do some of its recent proposals aiming to guide some schemes' investment strategies and reform of the LGPS cross a line into undue influence and interference? David Adams reports**

**Y**ou don't need to be a libertarian fanatic to know that sometimes there is such a thing as too much government. The pensions industry has spent decades trying to get politicians to address the problems faced by pension schemes and

savers. But some might argue pensions are now getting a bit too much attention from government. The fact the current administration announced a Pension Schemes Bill soon after coming into office was welcome, but some aspects of the bill, and signals coming out of

## ➤ Summary

- Concerns have been raised across the industry about reserve power that the Pension Schemes Bill could give the government, particularly in relation to mandation and proposed reforms of the LGPS.
- Debate continues as to the rights and wrongs of government being able – in theory – to coerce schemes into favouring UK investments. This could compromise trustees' ability to fulfil their fiduciary duties.
- Those concerned about the reserve power are also worried about the precedent it sets for government influence over schemes' investment strategies, which they fear could be exploited by a future government for other purposes.
- Whatever changes are made to legislation and regulation, there are concerns over the dangers of allowing short-term political priorities to overcome the longer time horizons that should guide scheme trusteeship and management.

government in relation to its eagerness for schemes to increase investment in UK assets, are causing alarm.

In January 2026, peers raised multiple concerns as the bill entered its committee stage in the House of Lords. These included the bill being a 'framework' or 'skeleton' piece of legislation, which makes it difficult to predict how the reserve powers it gives government might be used in future. Peers added their voices to criticism within the industry about the bill allowing government to mandate schemes' investing in UK assets; and to direct the work of the administering authorities for Local Government Pension Scheme (LGPS) pools.

At the heart of all these concerns, and others expressed when the bill passed through the House of Commons last autumn, is the fear these reserve powers may mean governments can override scheme trustees' or managers' attempts to fulfil their fiduciary duty to scheme members. The government's repeated insistence that these clauses only exist to help ensure schemes and the pensions industry meet commitments such as those agreed in the Mansion House Accords, and that reserve powers would only be used in exceptional circumstances, have not allayed those fears.

### Whose money is it anyway?

There are plenty of experienced politicians who both understand the industry's concerns and believe the government is right to try to persuade schemes to increase investment in UK assets.

"New contributions are topped up all the time by tax reliefs and national insurance (NI) reliefs, so this is not just private money belonging to the members and/or employers," says former Pensions Minister and longstanding pensions campaigner, Baroness Altmann. "These are hugely tax-favoured investment pools. The government has valid concerns that

the money is not being used to benefit this country. The vast majority has been invested overseas, boosting equity values for foreign companies, building power plants and roads in other countries, or investing in new technologies or housing.

"If pension funds do not increase their support for UK companies, infrastructure and housing, the government cannot invest enough in these essential areas of the economy and will not achieve growth objectives. Since at least a quarter of pension withdrawals are tax free, and nobody pays NI on their pension income, it seems clear that there is a rationale for the government to get involved."

## **"You tinker with fiduciary duty at your peril, because the unintended consequences could be quite significant"**

But another former Pensions Minister, LCP partner, Steve Webb, disagrees.

"I don't think it's the government's money: Tax relief is irrelevant – it just defers when the tax is paid," he says.

Arguably this question is itself irrelevant, or at least beside the central point as far as trustees are concerned: They might argue that at least some of this money definitely belongs to scheme members and that as trustees they have a fiduciary duty to safeguard it for those members.

Altmann argues that investing in UK companies, infrastructure and housing can be justified in fiduciary terms, "partly because this investment should mean their members can retire into a better country with higher living standards". She compares this to investing in environmentally friendly or socially responsible investments that might not perform well in the near term but should contribute to a better quality of life for everyone.

But others in the industry believe the government is unlikely to need to interfere with schemes' investment strategies anyway, because there are good arguments for schemes that will continue to grow through consolidation over the years ahead to invest in longer term, illiquid investments based in the UK.

"Schemes are on a path to investing more in the UK as they scale and become more capable of investing in those opportunities," says Pensions UK executive director of policy and advocacy, Zoe Alexander. "We don't think it's necessary for government to mandate that."

Webb also thinks it should be perfectly possible for the government to achieve its aims without resorting to coercion of schemes. He thinks the central problem is that the government is so keen to explore all potential means of boosting economic growth as quickly as possible.

"A pension scheme may be working on a 50-year time horizon – compare that to the electoral cycle," he says. "That's where the pressure comes from."

### A risk of overreach

Similar issues are visible in the debate surrounding the future of the LGPS. Pensions UK's submission to the Pension Schemes Bill Public Bill Committee noted that powers the bill will grant government could include directing LGPS pools' administering authorities' investment activities.

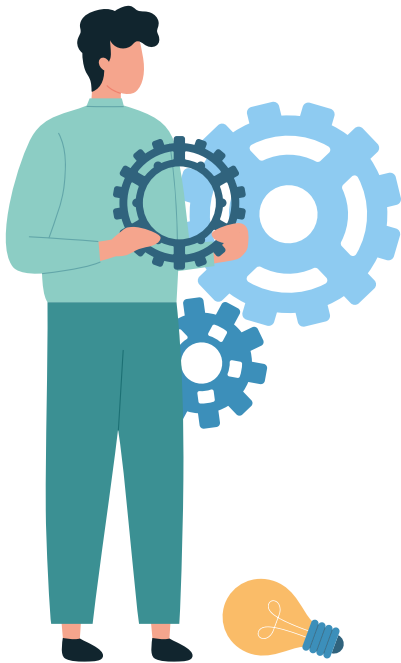
"We think the government doesn't need these powers in the way they have been drawn in the bill," says Alexander.

However, Altmann supports the government's intentions.

"The government underpins and guarantees these pensions. The schemes pay no Pension Protection Fund levy and if they fail, members' full pensions are paid by the taxpayer," she says. "So, in addition to the tax reliefs they get a state guarantee. These are massive pools of money – hundreds of billions of pounds

– and all the schemes are significantly overfunded.”

Again, she says she understands concerns raised by trustees and others, but she hopes they will comply with the government “because – and I hope this will not happen – the alternative would be for government to take over all the assets and turn this into another unfunded scheme, which would use the assets in any way the government wishes and bank the surpluses for taxpayers. I believe this would be extremely unwise, as we already have far too much in terms of unfunded pension liabilities, but beware.”



Pensions Management Institute chief strategy officer, Helen Forrest Hall, expresses more qualified support for the government’s plans.

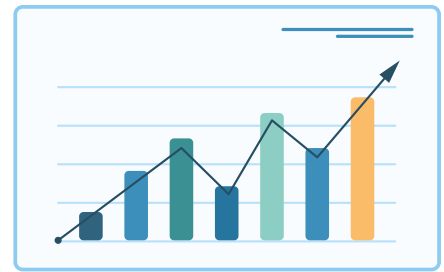
“We are supportive of consolidation, and we have been supportive over the general move towards pooling,” she says. “The bill ... sets out clearly what good looks like in when it comes to LGPS pooling: How they would be regulated and other sensible suggestions around governance.

“Where we have concerns is where the [proposals] talk about the Secretary of State requiring an administering authority to participate in a particular asset pool or cease to participate in an asset pool. That sort of forced participation or non-participation felt like a degree of overreach.”

She also highlights possible problems linked to local infrastructure requirements if the administering authority sets the investments rationale.

“There’s also this requirement for the industry authorities to take advice on their investment strategies from their pool,” Forrest Hall continues. “That felt to us like a conflict of interest, and it puts a significant burden on the administering authority to ensure the pool is performing effectively with no independent oversight.”

In both cases it is the possibility that the bill enables a government to set a precedent for direct involvement in scheme or pool governance that has



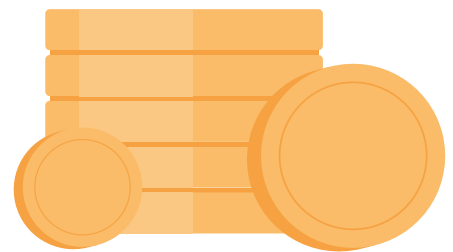
caused the greatest concern.

“Once it’s accepted that governments can tell schemes how to invest, does another government use this law to impose a different political agenda?” asks Webb. “That is a very dangerous precedent.”

Forrest Hall agrees. “Once you have a reserve power that allows any government to start reaching across fiduciary duty and telling pension schemes how to invest it becomes much easier for somebody else at some other point in the future to turn around and say, ‘I would like to do something similar and it’s fine because it’s been done before,’” she says. “You tinker with fiduciary duty at your peril, because the unintended consequences could be quite significant.”

Whatever further amendments are made to the legislation before it passes into law, Webb hopes the world of pensions will be able to adhere to principles of fiduciary duty and long-term planning.

“What you don’t want to do is import the instability of the political system into something you want to be very stable and focused on the long term,” he warns. Let us hope his successors in government are listening.



**Written by David Adams, a freelance journalist**

### Employer overreach?

Another possible consequence of the Pension Schemes Bill is that trustees of DB schemes may find the scheme’s sponsoring employer is able to influence decisions on how a scheme surplus might be used. The bill should allow trustees to alter a scheme’s governing documents in order to make payments of surplus funds to sponsoring employers, or for other purposes, including supporting DB or DC arrangements managed by the same trust, or enhancing benefits.

In November last year, Pensions Minister, Torsten Bell, told the House of Commons Work and Pensions Committee that trustees, not employers, would be “in the driving seat” in relation to decisions about surplus release, that decisions would remain in trustees’ hands and employers would not have direct access to surplus funds. It remains to be seen exactly how such situations will play out in practice.