ML FINANCIAL ASSOCIATES

Government Launches Wide-Ranging Pension Reform Plans

The Government has launched plans to make wide-ranging changes to how major pension funds are structured, with legal requirements to invest in UK assets.

The plans will oversee the creation of new pension 'megafunds' which will manage over £25 billion in assets.

This will affect major Local Government Pension Schemes (LGPS) and multi-employer defined contribution (DC) schemes, which include major pension providers such as NEST that pool together the pension funds of a range of companies.

Such schemes will be consolidated into fewer, larger pools of capital. LGPS schemes currently hold just under £400 billion in assets, according to the Government's own figures.

Currently such schemes are divided between 86 different local administrative authorities. The changes will consolidate this patchwork of pensions into just six 'megafunds'.

Multi-employer DC schemes will also be consolidated, with minimum asset levels of £25 billion per scheme. Schemes that don't meet this asset level by 2030 will need to show a plan to increase their assets to £25 billion by 2035, or face consolidation with other providers.

Compelling UK-based investments

Beyond the headline plans to consolidate such major pension funds, which the Government says will leave savers in those schemes up to £6,000 better off, is the news that it plans to set binding asset allocation targets for UK-based investments.

This will be legislated for in the upcoming Pension Schemes Bill.

While major pension providers have agreed, voluntarily, to increase their investment in domestic opportunities already, the power written into the legislation will enable the Government to compel providers to allocate more money to UK-based investments.

This will include major infrastructure projects across energy, housing, and transport, such as the Lower Thames Crossing, Clean Power 2030 (focused on energy grid decarbonisation) and long-term initiatives in technology and science-led innovation.

How will this affect my pension?

As announced, the plans will only affect savers who hold pensions in LGPS or multi-employer DC schemes. Private pensions, Self-Invested Pension Pots (SIPPs) and ISAs will for now be unaffected by the changes.

It's important to understand what your pension is invested in and whether it's suitable for your personal circumstances and retirement goals. One of our Financial Planners can help you identify the best approach to give your savings the greatest chance for growth before retirement and to provide income during retirement.

If you have any concerns about how these plans might affect you, it is essential to not make knee-jerk decisions. Instead, speak to us to help guide you on the best approach moving forward.