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**Delivered–21:15 24th February 2010**  
**NAPF Chairman's Dinner 2010**

Mary Queen of Scots said that when she died, the word Calais would be found written on her heart. When I die, I am expecting you to find the word Cadbury written on my heart.

We have just witnessed a heated debate about the iconic British company, Cadbury, falling into foreign ownership. This is a company to which we all feel an emotional attachment. One which had very longstanding exemplary traditions about how it treated its people. And the takeover battle took place at a sensitive time when UK institutions were actively discussing the need for greater shareholder engagement and stewardship.

The public concern has largely been about the loss of a British company and the possible effects on British jobs. The prevailing stock market and political view has been that the takeover is a natural result of globalisation. This, however, is by no means the full story. It needs to be linked to what is happening to long term investing institutions in this country.

The ongoing decline of defined benefit pension funds has been widely documented and commented upon.

Those of us at the sharp end of running pension schemes know the story: 10 years ago there were 2 million more people saving in defined benefit schemes than there are today. 10 years before that, we were at the high point of defined benefit scheme membership - 5.6 million members. Unimaginable by today's standards. This has been an astonishingly steep decline.

Most people see the fall in defined benefit provision as a future problem in the making. The concern is that future pension provision will prove inadequate, precipitating a pensions crisis in 20 or 30 years time. We are right to be concerned about these issues. That's why NAPF has put a focus on supporting good quality defined contribution schemes and the National Employment Savings Trust. We need to make sure that these are effective and that contribution rates remain adequate.

But the rapid decline in defined benefit provision is not just a future problem. It is actually having very important investment consequences which are immediate and which are likely to be deeply damaging to the UK economy. And even worse, although people are not happy about the symptoms that they recognise, no-one seems to see through to the underlying condition, let alone to be taking any mitigating action.

The fundamental problem can be traced back to changes being forced upon the long term investing institutions in this country. What are these fundamental changes that I am talking about?

Back in the good old days, the UK was home to a large group of long term investing institutions, mainly life assurance companies and pension funds, which were a magnet attracting companies to list in London.

These long term institutions were heavily influenced by actuaries who took a long term view of investing. The institutions invested heavily in equities. Most of their equity investments were in the UK market. Holdings in international equities were minimal before the abolition of exchange controls in 1979. Way back then, UK savers both financed and controlled British industry through their equity investment policy. In those circumstances it would have been rational for politicians to berate UK investors for letting an iconic British company fall into foreign ownership, or for failing to curb the over-enthusiastic expansion plans of British banks.

But curiously enough they didn't.

In those days such happenings were regarded as part of a process of globalisation, from which we would all benefit. And, as I said, the existence of the big domestic long term investing institutions was a crucial component of the development of London as a global financial centre.

Those good old days lasted through the 1980s and well into the 1990s. At that time share registers and investment policies were indeed globalising. The influence of domestic UK investors over British companies was diminishing. But more recent changes have had a more dramatic effect on the level of domestic ownership of UK Companies.

The defined benefit pension funds would have matured over time and their investment strategies would in any event have moved in favour of bonds as

opposed to equities. But the regulatory and tax blizzard which has hit them over the last 20 years has pushed them towards run-off and has forced the investment strategy change to happen much more quickly.

As if that wasn't enough, another major driver of change in company share registers has been the application of mark-to-market accounting and solvency standards to long term investing institutions. Quite simply, when these standards are applied to life assurance companies and pension funds, the proportion of their assets invested in equities is bound to fall.

The institutions are no longer able to take the long view. For those pension funds which were not mature, the effects have been even greater because marking-to-market has forced them out of equities. This has denied them the opportunity of earning the hotly debated equity risk premium and pushed up the expected costs of the benefits they seek to provide. We all know what happened next: the rate of pension fund closure has accelerated, which has further reduced the funds' equity investment potential. We are now locked in a self-reinforcing downward spiral of decline.

Therefore the traditional long term investing institutions like pension funds no longer dominate the UK equity market. Today, domestic pension funds now own just 13% of the UK equity market. Adding in the life assurers takes the equity market holding up to the 25-30% level. The higher figure of 45-50% held by UK institutions includes 15-20% held on behalf of overseas investors. Overseas investors in aggregate already hold much more of the UK equity market than domestic institutions and the proportions held by domestic investors will continue to fall.

These changes matter. Quite simply, in our current regulatory and accounting regime, there is no natural domestic buyer of UK equities. Despite this, UK investors participated in a major recapitalisation of British companies in 2009, for which we have received little political credit.

So the decline in defined benefit pension funds is not just a problem to worry about in 20 years time. It is already having a considerable impact in the equity market, with major consequences for British companies and the UK economy, not to mention millions of people who are trying to do the right thing and put a bit by for retirement.

We need to worry now and to take some action to at least slow down the current rapid changes which are driven by fear of deficits.

That is why tomorrow the NAPF will be publishing its 'Budget for Pensions'. In it we call on Government to use its last Budget of this parliament to help support workplace pensions and the millions who rely on them.

Given that we are now largely forced buyers of debt – especially government debt – we have renewed our calls on the Government to issue more long-dated and index-linked gilts. We know it makes sense: it's good for companies, who will see their liabilities fall; it's good for schemes, who will see their deficits shrink; it's good for working people, who are more likely to see their schemes survive; and it's good for government who will have access to capital – and let's face it, they need some of that right now.

There is in fact a Catch 22 situation at play just now. Pension funds need long-dated index-linked gilts but they don't want to buy them at current derisory yield levels. And the Debt Management Office is not going to issue the stock only to find that the demand is not there. What we need is a normalisation of the index-linked yield curve and the DMO then issuing the long-dated stock needed by the defined benefit schemes at a reasonable level of long term yield. Forcing pension funds to buy seriously over-priced government stock may seem like a good wheeze for a cash-strapped government but this represents a misallocation of capital which will have very damaging long term economic effects.

Government know all this too. So let's see them move in our direction with a significant issuance of long-dated and index-linked stock on terms which make sense for long-term investors.

And let us see Government move in our direction by reversing the decision in last year's Budget to withdraw tax relief on pension contributions.

Please don't think I'm about to make a special plea for fat cats. I'm not. As we go into the voting season, you can be assured that the NAPF will be tough on corporate excess.

The problem is that, contrary to what the Treasury tells us, this tax grab will affect people much lower down the income scale in quite a random and arbitrary way.

Tomorrow we will publish our submission to the Chancellor in advance of his last Budget of this parliament. In it we show that people who are on 70 or 80 thousand a year, perhaps even 50 thousand a year will be hit if they suddenly find they have a decent promotion or a good bonus, or have their relocation costs covered by their employer or a redundancy payment.

OK, people on these income levels are doing well, and I fully accept that they are earning well above average earnings. But they are hardly the sort of people the Government had in mind when it announced this new tax on pensions a year ago.

For these people, saving in a pension becomes an expensive option when we all know it should be a no brainer.

What's more, our analysis also shows that Treasury is unlikely to raise £3.1bn from this move, as it predicts. Given the likely move out of pension saving from those directly and indirectly affected, the tax take could be as low as £900 million. The admin costs are likely to be somewhere north of £2.5 billion – not exactly an advertisement for better regulation.

If the Government must go ahead with these proposals, they must adopt a more pragmatic approach – one that works with the current grain of pension tax policy. We recommend the annual contributions allowance – currently at a whopping £255,000 – is reduced to somewhere between £40 to £60 thousand pounds a year. This would still allow the Government to collect additional tax revenues from pensions, but it would also be fairer and be less arbitrary than the current ill-thought out proposals.

Reversing the current tax proposals is just one measure Government must take to support pensions. It would also be possible to ease the problem of defined benefit pension decline by, for example, facilitating pensions risk sharing and by backing away from marking long term institutions to market.

On marking-to-market, I will put in a trailer for the forthcoming NAPF Investment Conference, participants at which will be able to see Stephen Cooper of the IASB make mincemeat of me in a debate on the issue. Although I am expecting to lose the debate, I do know that I am right and that marking long term institutions to market is a bad idea.

And risk sharing goes right to the heart of the matter. The defined benefit funds started life as risk-sharing cooperatives. We ended up putting all the risks onto the sponsoring employer, with very predictable results. We still need to facilitate risk sharing through arrangements such as conditional indexation. As in many other facets of British life, our unwillingness to tolerate risk has unintended adverse consequences.

Of course, whilst we live in hope that the Government will take immediate action, our proposals are not just addressed to the current Chancellor. They are addressed to whoever occupies No 11 Downing Street after the election.

And so I will be listening carefully to what Mark Hoban has to say, and what hopes and what practical proposals he has for us. And they are also addressed to all the policymakers with us tonight.

We must – together – address this problem. And the powers that be must take it every bit as seriously - and recognise that the need for action is urgent - as do NAPF members.

If they do not, there are two clear investment and economic consequences for the UK economy, which we are unlikely to find beneficial.

Firstly, there is going to be a major misallocation of capital to over-priced government securities. This retirement savings capital should be financing British industry. Whilst the government of the day will no doubt be delighted to be able to finance its deficit on very advantageous terms, the economic consequences will be dire.

And to return to Cadbury, you can expect UK industry to be majority owned and controlled by foreign investors, for better or worse. As a citizen, I don't see this as an advantageous development.

And of course with these developments, you can expect British pensioners to be worse off. You have been warned!