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Pension Schemes Bill 2019-20
ShareAction Committee stage briefing

This briefing outlines the UK Government's Pension Schemes Bill ("The Bill"); how pensions can help to tackle climate change; and how the Bill could be changed to facilitate this.

Linking pensions and climate change

When the UK hosts the COP26 summit in December, the world will look to the UK government for leadership on how to address the risks and opportunities posed by climate change. Given the urgency of the crisis, and the risk it poses to the UK economy in particular, we need to raise our ambition and accelerate our action. Climate change is a systemic threat. It is not therefore within the remit of one or two Whitehall departments – any response to it must be embedded throughout the Government's agenda.

The Pension Schemes Bill presents an opportunity to put this into practice. The Bill focuses on the arrangements around collective money purchase schemes and the introduction of a pensions dashboard, as well as points around extending the powers of The Pensions Regulator, DB funding, transfer rights, the Pension Protection Fund and administration charges. There is scope to reform the Bill so that the pensions industry is more able to address the financial risks of climate change, and better aligned with the interests of savers.

The Bill has potential to deliver on three key policy objectives, in relation to the Department of Work and Pensions, and the Government as a whole: Tackling climate change, increasing transparency in pensions, and boosting pension savings.

As this briefing will explain, climate change presents a material risk to financial assets which our pension funds are failing to mitigate. This Bill is an opportunity to put our pensions industry on a more sustainable footing. The DWP has presented an amended form of the Bill to the House of Lords prior to Committee stage; this briefing will outline where the Bill has already been improved by the DWP, and other areas where it could be enhanced.

Tackling climate change

Require pension schemes to align their portfolios with the Paris Agreement objectives

- The UK Government needs to ensure that UK pension investment portfolios are aligned with the UK's emission reduction targets. Pension assets total $2.9 trillion

(102% of UK GDP)[1]. The size and influence of pension schemes means that they have a vital role to play in ensuring the UK meets its climate commitments, as the Environmental Audit Committee noted in its Greening Finance report[2].

- UK pension funds also need to act to protect their beneficiaries' savings from the significant financial risk associated with climate risk. Research from Mercers has found for nearly all asset classes, regions and timeframes, a 2ºC scenario leads to enhanced projected returns versus 3ºC or 4ºC and therefore a better outcome for investors[3].

- Research and analysis (including from the IIGCC)[4] is already emerging that will help pension funds with the practicalities of meeting such requirements – and more would emerge quickly as asset managers and advisors reacted to this new requirement. Initiatives such as the Asset Owner Alliance[5], which has convened some of the world's largest pension funds and insurers to report on their climate risk, shows how this could be done in practice.

- This requirement would not necessarily involve disinvestment from any particular sector – it would involve trustees assessing whether the assets in their portfolios have a clear strategy for aligning their business model with the UK's emission reduction timeline and taking appropriate action. This would give companies clear incentives to develop Paris-compliant business models and invest in low-carbon opportunities, making it easier for the Government to achieve its own targets.

Baroness Hayman has tabled an amendment to the Bill to facilitate this and we would encourage peers to support it.

Require pension schemes to report against the TCFD framework

- The Government's amendment would allow the DWP to issue new regulations; following consultation in the summer, these would require pension schemes to disclose data on their exposure to climate risk, and their strategy for mitigating it. This would not result in the Government directing scheme investments.

- To align with the Paris Agreement, pension schemes must first disclose data on their exposure to climate risk. This data will enable engagement between schemes and the companies they are invested in on reducing this risk.

- The amendment ensures all pension schemes have to report against the same framework. It also does not dictate that schemes have to pursue a particular investment or divestment strategy. The operational independence of trustees is maintained. The requirement to disclose how the trustees are mitigating climate risk will help drive up standards of trusteeship.

- Assuming this amendment makes it into law, the DWP hold a consultation on the exact detail of the regulation (most likely in summer 2020).

1 https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2019/02/Global-Pension-Asset-Survey-2019
2 https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1063/106305.htm#_idTextAnchor013
3 https://www.mercer.com/our-thinking/wealth/climate-change-the-sequel.html
4 https://www.iigcc.org/news/european-investors-launch-project-to-support-alignment-of-portfolios-to-the-paris-agreement/
5 https://wwf.panda.org/our_work/finance/?353375/Net-Zero-Asset-Owner-Alliance

- When these regulations are drafted, we support using the Taskforce for Climate-related Financial Disclosures (TCFD) framework as a basis for this. The TCFD was launched by the G20's Financial Stability Board in 2015, to create a reporting framework on climate risk. The TCFD published its final framework in 2017; the UK Government endorsed this and encourages all financial institutions to adopt it.

The Minister has tabled an amendment to the Bill[6] to facilitate this and we urge peers to support it.

Increasing transparency in pensions

The pensions dashboard – information on schemes' approaches to ESG

- A key component of the Bill is the creation of the pensions dashboard. This is designed as a single public interface for savers to access information about their pension. It is designed to ensure pension schemes operate more transparently – for example, by making information on costs, fees and charges more accessible.

- There is a danger that data relating to climate risk will not be configured into the operation of the dashboard. Just as information on costs, fees and charges are important for savers to know, so too is information on how their scheme is managing climate risk and other ESG factors. The Bill should specify this to ensure the dashboard fulfils this function from its inception.

Baroness Bennett and Baroness Hayman have tabled amendments to the Bill to facilitate this and we urge peers to support them.

Encourage diversity in pension schemes

- Numerous studies have found that diverse groups are more effective at decision making. Also, if governance groups better reflect the identity diversity of the wider group they represent, their collective life experiences will improve their capacity to understand the unique challenges faced by each of their pension scheme members.

- Pension outcomes are affected by characteristics such as gender, ethnicity, disability and age. Recent analysis of official data suggests the gap between men and women's pension income is nearly 40%, nearly twice that of the gender pay gap[7]. Research pension outcomes than other workers.[8]

Baroness Bennett has tabled an amendment to the Bill to facilitate this and we urge peers to support it.

A central repository for SIPs, Chair's Statements and Implementation Statements

- Pension schemes are legally required to publish a Statement of Investment Principles (SIP). The DWP and The Pensions Regulator should create a central repository for

6 https://publications.parliament.uk/pa/bills/lbill/58-01/004/5801004(i).pdf, pp. 4-5
7 https://www.ft.com/content/c9b74996-b582-11e7-aa26-bb002965bce8
8 https://www.tuc.org.uk/sites/default/files/TheUnder-pensioned.pdf

SIPs, so savers are able to easily access and compare the investment policies of their scheme and others. The Modern Slavery Registry could serve as a model for this. It would be of additional benefit of reducing the practical burden on smaller schemes to publish SIPs, as many of them do not have a website.

- A recent report by the UK Sustainable Investment and Finance Association found that two thirds of schemes were not compliant with their legal duty to publish their SIP.[9]
- The Bill should therefore create a requirement for trustees to send a copy of the latest version of their SIP, Chair's Statement and Implementation Statement to The Pensions Regulator for publication, and a duty on TPR to create and maintain a public SIP repository.

Baroness Bennett and Baroness Altmann have tabled amendments to the Bill to facilitate this and we urge peers to support them.

Boosting pensions saving

Create a duty for pension schemes to seek to understand members' views

- Recent DFID research into people's views on sustainable investing has shown that just over two thirds of UK savers, 68%, would like their investments to be responsible and impactful[10]. However, our experience is that such investment products are not widely available.
- We agree with the Pensions Minister that: "Pension schemes ought to be thinking about the assets which help drive new investment in important sectors of the economy... which deliver the sustainable employment, communities and environments which all of us wish to enjoy[11]." However, the Law Commission said that trustees "may not impose their own ethical views on their beneficiaries"[12]. It is therefore important that they seek to understand members' views.
- Seeking to understand members' views could take many forms depending on the size and resources of the scheme, from offering the opportunity to comment on a draft policy, to surveys and focus groups that help schemes develop policies that better reflect their members' priorities and interests. Scheme decision-makers would not be bound by the results of the consultation but these exercises should help them make decisions that are more closely aligned with the values and long-term interests of members. This should help increase engagement levels in member populations and a sense of 'ownership' of the pension pot, potentially driving up contribution levels.

Baroness Bennett has tabled an amendment to the Bill to facilitate this and we urge peers to support it and to try to secure a public consultation.

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9 https://uksif.org/2020/02/06/uksif-flags-pension-scheme-transparency-noncompliance/
10 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834207/Investing-in-a-better-wold-full-report.pdf
11 https://www.cityam.com/invest-green-energy-urges-minister-financial-risks-climate/
12 http://content.tfl.gov.uk/law-commission-guidance.pdf

Content of the bill

Part 1:

- Sets out arrangements for the authorisation and ongoing management of collective money purchase schemes (collective defined contribution (CDC) schemes where contributions into the scheme are pooled and invested with a view to delivering an aspired benefit level).

Part 2:

- Sets out arrangements for the authorisation and ongoing management of CDC schemes in Northern Ireland.

Part 3:

- Extends powers of The Pensions Regulator (TPR) in relation to imposing criminal offences and civil penalties, issuing contribution notices, requiring statements on corporate transactions affecting DB pension schemes and gathering information on potential breaches of pension legislation.

Part 4:

- Sets out arrangements for establishing a pension dashboard service, including making regulations requiring information from occupational pension schemes.

Part 5:

- Requires DB scheme trustees to have a scheme-specific funding and investment strategy and explain this to TPR in a statement of strategy, and strengthens TPR's scheme funding enforcement powers.
- Allows regulations to be made to limit the circumstances under which members of DB schemes can transfer to another scheme.
- Allows regulations to be made to require trustees to disclose information on climate-related financial risk.
- Makes changes to legislation to allow a fixed pension to be treated as pensionable service for the purposes of calculating Pension Protection Fund compensation.
- Clarifies what costs fall within the definition of an administrative charge.

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