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## **ShareAction submission to Labour Policy Commission on Work, Pensions and Equality**

### *About ShareAction*

ShareAction is a registered charity established to promote transparency and responsible investment practices by pension funds and other institutional investors. We are a member organisation and count amongst our members well-known NGOs and charitable foundations, as well as over 26,000 individual supporters.

### *Our proposals on Work, Pensions and Equality*

ShareAction has worked extensively with ordinary pension savers to ensure their pension schemes work better for them. Our proposals seek to reform the pensions industry to be more transparent and accountable to savers, and engaged with the long-term financial risk posed by environmental, social and governance (ESG) factors to their assets.

#### **1) Require pension schemes to align with the Paris Climate Agreement**

The fiduciary duty of pension scheme trustees allows for the consideration of financially material ESG factors, e.g. climate change. Our research shows many trustees are failing to properly address this risk to scheme assets. Our 2018 survey of large automatic enrolment pension providers found that, excluding one scheme, most pension savers are effectively subject to a 'climate risk lottery', with massive variance in how effectively trustees are addressing the threat of climate change to savings.<sup>1</sup> This indicates trustee boards of many large pension schemes are failing to take adequate steps to mitigate climate risk, and are not using the financial leverage they possess as a force for good in tackling climate change.

Introducing a legal requirement for pension schemes to align with the Paris Climate Agreement would catalyse the action needed. Schemes would need to review their investment strategies to ensure compliance. This would go some way to protecting pension scheme assets, and help drive the total £3 trillion in UK private pension funds towards fighting climate change.

#### **2) Require pension schemes to publish information on the diversity of trustee boards**

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<sup>1</sup> ShareAction (March 2020). *Point of No Returns: A ranking of 75 of the world's largest asset managers' approaches to responsible investment*, p. 8. Available online at: <https://shareaction.org/wp-content/uploads/2020/03/Point-of-no>Returns.pdf> [accessed 20th July 2020].

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.<sup>2</sup>

At time of writing, the Department for Work and Pensions has stated that The Pensions Regulator is convening a working group to improve diversity in the pensions industry. However, this will be a non-starter if they do not have data on the scale of the problem. We advocate pension schemes being required to publish information on trustee board diversity, which The Pensions Regulator can then use to inform its work.

### **3) *More consultation by pension schemes to better 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.<sup>3</sup> 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 environment which all of us wish to enjoy."<sup>4</sup> However, the Law Commission said that trustees "may not impose their own ethical views on their beneficiaries"<sup>5</sup>. 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. In light of this, we believe Labour should champion the development of new initiatives of this kind within the pensions industry, to boost both trustee accountability and saver engagement.

### **4) *Allow people to choose between automatic enrolment compliant schemes without risk of losing employers' contributions***

Under automatic enrolment, employers choose a suitable scheme for staff meaning providers focus more on the needs of employers than savers, despite savers bearing investment risks. Giving employees the right to change scheme without losing their employer's contribution would incentivise providers to build a better relationship with savers and focus on their needs.

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<sup>2</sup> Financial Times (22 October 2017). "The gender pension gap is widening, report finds." Available online at: <https://www.ft.com/content/c9b74996-b582-11e7-aa26-bb002965bce8> [accessed 20 July 2020].

<sup>3</sup> Department for International Development (September 2019). *Investing in a Better World: Understanding the UK public's demand for opportunities to invest in the Sustainable Development Goals*, p. 7. Available online at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/834207/Investing-in-a-better-world-full-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834207/Investing-in-a-better-world-full-report.pdf) [accessed 20 July 2020].

<sup>4</sup> City AM (3 June 2019). "Invest in green energy, urges minister, as financial risks of climate change 'too important to ignore'". Available online at: <https://www.cityam.com/invest-green-energy-urges-minister-financial-risks-climate/> [accessed 20 July 2020].

<sup>5</sup> The Law Commission (July 2014). "Is it always about the money?: Pension trustees' duties when setting an investment strategy". Available online at: <http://content.tfl.gov.uk/law-commission-guidance.pdf> [accessed 20 July 2020].