63/66 Hatton Garden
Fifth Floor, Suite 23
London
EC1N 8LE
+44 (0) 20 7403 7800

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

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Sent via email

'Pensions of the future – A discussion on our strategy': Consultation response

I am writing to respond to The Pension Regulator's consultation on behalf of ShareAction, 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.

1) **Do you think our approach to thinking about savers has identified the most significant current and future challenges for each cohort?**

Yes; we would like to comment in particular on your strategy for driving participation in workplace pensions for Generation X and Millennial savers.

Despite the mainstreaming of responsible investment in recent years, the pensions industry has yet to capitalise on this trend to engage more pension savers. Though pension schemes should be doing more to practice responsible investment to mitigate ESG-related financial risk, it would be a missed opportunity if they do not use this activity to engage with younger savers. There is a wealth of polling data indicating that many Generation X and Millennials savers want retirement products to help build a better world to retire into, and that the market has not responded to this demand. In a 2016 LGIM survey, 84% of savers stated they would prefer a pension that uses investments to encourage companies to be more responsible.[1] This trend is more pronounced among younger savers; in 2016 a PwC survey reported 68% of 25 - 34 year olds stated it is important that people use their money for the good of society and the wider world.[2] Indeed having responsible investment provision can act as catalyst for more saving. A Franklin Templeton study of younger savers found 45% would pay more into their pension if they knew responsible investment was incorporated[3]; of these savers, 70% would increase their pension contributions by 1%-3%.[4]

To stimulate greater participation by savers, TPR should work with the industry to respond to this demand for responsibly invested pensions. ShareAction has surveyed schemes under TPR's remit as to how they can do this. For example, TPR's strategy recognises the trend that 'Millennials will

[1] LGIM (7 November 2016). "LGIM launches multi-factor fund that also addresses climate risk." Available online at: https://www.legalandgeneralgroup.com/media-centre/press-releases/lgim-launches-multi-factor-fund-that-also-addresses-climate-change-risk-hsbc-bank-uk-pension-scheme-first-to-adopt/ [accessed 4 December 2020].
[2] PwC (December 2016). Social Investment Demand: research findings December 2016.
[3] Franklin Templeton (2019). *The Power of Emotions: Responsible investment as a motivator for Generation DC*, p. 32. Available online at: https://www.franklintempleton.co.uk/download/en-gb/common/k03xuf49 [accessed 16 December 2020].
[4] Ibid.

increasingly concentrate into large master trusts as consolidation takes effect. This brings the opportunity for enhanced savings outcomes where schemes are well run, offer access to a wider range of investments, and bring economies of scale.' ShareAction's 2019 survey of master trusts found that many over-reliant on other market players for direction on responsible investment; that they are over-delegating stewardship to asset managers without sufficient oversight; and that they show low levels of engagement with policymakers on the low-carbon transition.[5] More promisingly, there has been an increase in take up of ESG/climate funds into master trusts' default asset allocation.[6] All of this can inform how TPR approaches this issue in detail.

We understand from the Department of Work and Pensions that TPR is creating an online Statement of Investment Principles (SIP) repository. The DWP has not enshrined this in legislation, though the Minister, Baroness Stedman-Scott, has confirmed this in written correspondence following a debate in Parliament on the Pension Schemes Bill.[7] We welcome this and recognise it would be a significant undertaking for TPR; we would urge TPR to consider how a SIP repository could be used to further its strategic objective of driving up participation in workplace pensions. Allowing savers to compare pension scheme SIPs would be an excellent tool to drive a race to the top in terms of responsible investment by pension schemes, and in turn drive up saver engagement.

We would also make a more general point about how TPR ascertains the key challenges savers in each cohort are facing and will face. TPR's strategy should put a greater focus on saver engagement and representation to ensure that, throughout the 15 year lifespan of the strategy, the action it takes is informed by consultation with truly representative bodies of savers. The DWP stated during the Pension Schemes Bill debate that TPR was to establish a working group on diversity on trustee boards.[8] In addition to the work of this group, TPR should look at how to encourage more effective consultation by pension schemes of their members' views.

2) **To what extent should we differentiate our approach to regulation for these different saver groups? At what pace would you expect to see this happen?**

We would not advocate differentiating the approach to regulation of the aforementioned areas; promoting responsible investment, trustee diversity and member consultation will benefit savers of all ages.

3) **Do you think the key trends we have identified adequately capture the most likely system-level changes pensions will experience over the next 15 years? Are there other system-level changes you believe we need to consider?**

The system-level threat of climate change to pension scheme assets is conspicuously absent from the strategy. The strategy does make reference to ESG risk and how TPR will need to adapt to new ESG regulation; however we would encourage a much bolder approach in which TPR seeks to enable a much more rigorous protection of assets from climate risk by the pension schemes it regulates. In light of the fact that the strategy has a 15 year lifespan, it should be adjusted accordingly to reflect the fact that, on current trends, the change to global temperatures is set to have a deleterious effect on financial assets.

Under directive of the Pension Schemes Bill, TPR is to begin work with the DWP on a new mandatory TCFD reporting regime for pension schemes. This is a welcome development, but we would emphasise that reporting is a means to an end, not an end in itself. TPR should consider

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[5] ShareAction (December 2019). *Is Regulation Enough?,* p. 6. Available online at: https://shareaction.org/wp-content/uploads/2019/12/Master-Trusts-Review.pdf [accessed 4 December 2020].

[6] Ibid.

[7] Parliamentary correspondence from Baroness Stedman-Scott (5 March 2020). Available online at: http://data.parliament.uk/DepositedPapers/files/DEP2020-0169/Baroness_Stedman-Scott_to_Peers_Day_Two.pdf [accessed 4 December 2020].

[8] Hansard (30 June 2020). Available online at: https://hansard.parliament.uk/Lords/2020-06-30/debates/E9FEBA0F-B197-4454-A49C-B51BC28F3749/PensionSchemesBill(HL) [accessed 16 December 2020].

how they will use the TCFD reports to ensure pension schemes act to play their part in the low-carbon transition. Once the first reporting cycle under the new regime is complete, TPR should conduct a landscape report to review how pension schemes are managing the low-carbon transition.

Most pension schemes have yet to respond appropriately to the system-level change they are facing. A 2019 ShareAction report surveyed TPR- and FCA-regulated pension schemes (master trusts and group personal pensions); of the 15 schemes surveyed, only two had default funds that had been explicitly constructed to reduce exposure to climate-related risks.[9] Only two out of the 10 employer-sponsored trusts added climate change to their risk register; only three of the 10 had conducted scenario analyses.[10] In light of the action the pensions industry needs to take, we would encourage TPR to revise the strategy to incorporate robust engagement with the industry on this issue over the next 15 years.

4) Do our strategic priorities provide the coverage, focus and flexibility we need to achieve our ambitions for savers over the next 15 years?

We encourage a more holistic approach, especially with regard to mitigating ESG risk in pension schemes as detailed above. TPR should recognise its role within the investment system as a whole, and the part it can play to ensure a significant section of the investment system is operating in a prudent and farsighted manner. It will be necessary to work closely with other regulators, in particular the FCA, to ensure that pension schemes and their asset managers are moving in lockstep to properly address ESG-related challenges. For example, the problem of pension schemes over-delegating responsible investment activity to their asset managers will require TPR and the FCA to work together closely. TPR should encourage trustees to take more ownership of responsible investment, and the FCA should look at how to ensure asset managers are engaging in both directions, i.e. with trustees and with investee companies, to ensure ESG risk is being addressed.

Yours sincerely,

David O'Sullivan
UK Policy Officer, ShareAction

[9] ShareAction (February 2019). *Will Employees Benefit?*, p. 7. Available online at: https://shareaction.org/wp-content/uploads/2019/02/CorporatePensions2019.pdf [accessed 4 December 2020].
[10] Ibid.