ShareAction»

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Value for Money Consultation Response

ShareAction is a UK registered charity that works to build a financial system that serves our planet and its people. ShareAction works to define the highest standards for responsible investment, mobilising investors to take action to improve labour standards, tackle climate change and the biodiversity crisis, and address pressing global health issues. We have strong relationships with financial regulators, government bodies, investors and asset owners such as pension funds, charities and universities with significant endowments. ShareAction was previously called Fair Pensions and we have been advocating for pensions reform for many years.

We write in response to the Value For Money Framework Consultation published on 8th August 2024. We are pleased to respond briefly to this consultation and would be delighted to discuss anything in our response.

ShareAction supports consistent measurement and public disclosure of investment performance, costs and service quality by firms to ensure greater transparency across the market. Specifically, in the pension ecosystem, it is important for savers to know where their retirement savings are being invested and to be able to trace the impact of their money – financially and in a broader context.

We also support the action-based approach suggested by the consultation which will ensure that savers' workplace pensions are protected from any major low value performance before it is too late. Additionally, ShareAction considers the FCA's efforts to broaden Value for Money (VFM) beyond costs and charges of services very positive. The inclusion of investment performance and quality of service of pension schemes allows savers to be treated as consumers in the same way they might choose any other product. After recent concerns of pension schemes failing to provide decent returns and thus adequate savings for members, it is crucial that there should be accountability.

However, ShareAction considers that pension schemes investing in initiatives that drive global warming and nature loss cannot offer real 'value for money'. We will address this in our response, but it is an aspect that should receive more consideration within the Framework.

Climate, social and nature considerations

ShareAction is concerned that the proposals outlined in the consultation do not include metrics to disclose and compare sustainability performance by schemes. Increasingly, savers want to see their pension scheme make investments that reflect their beliefs. YouGov research undertaken in 2023 showed that 73% of people wanted either more, equal weight or some consideration to be given to the social and environmental impacts of their investments, compared with financial returns.

Environmental and social impacts of investments is something that matters to savers, thus it is of value.

Furthermore, for younger people who are auto-enrolled in pensions now, it would not represent good 'value for money' if their scheme performed well for financial and service metrics in the short-term but was helping to contribute to environmental destruction. Funds that might be performing well currently but do not incorporate systemic risks such as climate change will not provide good returns in the long run. Additionally, such investments risk the future of the planet and the financial security of younger generations in particular. This does not present holistic 'value for money'.

ShareAction would like pension schemes' performance on climate and biodiversity to be incorporated into the VFM framework's metrics. Given the economic destruction that current climate change trends would entail, and potential major impacts on the financial sector of a badly managed transition, pension savers risk a catastrophic collapse in the value of their pensions savings at some point in the future. Pension funds are not yet investing enough in powering the just, green transition that would mitigate the risks of this scenario. In fact, they are often invested in companies that will cause this harm. £300 billion of UK pension capital is invested in companies with a high risk of driving deforestation[i] and UK pension funds have invested over £88bn in the fossil fuel industry, ten times the current value of total investments in listed FTSE 350 stocks that are predominantly involved in clean energy. With better disclosures and accountability, pension funds would be encouraged to move away from environmentally damaging investments and contribute to the UK's green growth.

A crucial piece of the pension puzzle which can prevent trustees from acting in their beneficiaries' long-term best interests is the misunderstanding or misapplication of fiduciary duty. There is now a broad consensus that the legal understanding of fiduciary duty is not fit for purpose given systemic risks, particularly climate change. ShareAction endorses the clarification of fiduciary duty in law, outlining trustees' obligation to act in the long-term best interests of their beneficiaries.

Asset allocation

The requirement to disclose the split of UK and non-UK assets could be a positive initiate for UK economic growth. Not only would it encourage investment into the UK, but it could be an influential step in the UK's own transition to net zero by promoting investment in British green energy projects, for example. Polling conducted by ShareAction and Make My Money Matter shows that 65% of people believe the government should be doing more to help UK pension funds to invest in companies that help tackle the climate crisis.[ii] This is an essential step towards transparency of where pension funds invest savers' money and will provoke questions over the lack of investment in the UK itself.

In the early 2000s, pension assets investments in liquid UK equities was around 50% but today it is only 4%.[iii] Through disclosures, schemes could be encouraged to benefit the UK financially and develop the economy by attracting greater amounts of investment, domestically and internationally. This should help drive UK growth and is usually popular with pension scheme members, for example where LGPS invest in local initiatives that boost the local economy. Furthermore, investment in the UK is likely to be in savers' broader best interests by driving investment into local infrastructure, increasing employment opportunities, improving local communities and improving members' quality of life.

It will be important to ensure that any government recommendations in relation to the asset allocation of pension schemes do not result in conflicts with the fiduciary duty of pension trustees.

Measuring success

While it is positive that the Framework will drive improvement across the market by tracking performance metrics over time, it is vital that environmental and social factors are also considered in the metrics as data driven performance on these investment factors will drive change and improvement across the market. Transparency of investment performance for pension scheme savers is a positive move and could instigate behavioural change within the financial sector and encourage higher expectations from consumers and investors.

Many pension savers are employees whose pension provider is chosen by the employer, so the ability to measure the performance of a pension fund is crucial to transparency and building greater confidence in the auto-enrolment process for employers and employees. Through the Framework, there is an opportunity for employers to make better decisions to support the long-term wellbeing of employees. We note the lack of agency on the part of pension savers, who are unable to switch their pension scheme without the risk of losing their employer's contribution, may play a significant role in preventing increased value for money across the sector.

Transparency and reporting

Increased transparency through the publication of historic data of investment performance, and the ability to compare different pension funds under the labels of Red, Amber or Green, will drive competition in the market and help to identify the strongest performing pension schemes. Given the decline of the UK economy in the past few decades and the cost-of-living crisis that has impacted many pension savers, the diminishing value of pension scheme members' retirement savings is a major concern. A recent paper estimates that over 80% of people enrolled in DC schemes are not saving enough to achieve what the public believes to be an acceptable level of income in retirement,[iv] which, along with the poor value for money that many savers are already receiving, compounds the issues around lack of adequacy of income in retirement.

ShareAction is concerned that many DC pension schemes do not meet the Pension Regulator (TPR)'s key governance requirements on assessing value for members. The VFM framework will be very important in ensuring that DC schemes are assessed and can be held accountable for the value that they provide for savers. The shift of the Framework's focus from only cost towards longer-term performance outcomes will help to protect savers from poor retirement savings by being in underperforming schemes for long periods of time. Greater disclosures through a stronger regulatory regime will help protect savers.

Quality of services: Potential indicators

Savers should have the opportunity to engage with their pensions and analyse the performance of their scheme. Savers should also feel that their pension scheme reflects their values and have the means to hold their pension scheme accountable for investment decision making. The ability for savers to assess their pension savings' performance should help deter pension schemes from mechanical investment decisions or trusting poor advice from investment consultants, ensuring that pension savings grow rather than provide poor returns. It is important that pension scheme trustees have the confidence to reflect members' investment preferences in their financial decisions.

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[i] Make My Money Matter, Climate Action report, 2024

[ii] Polling commissioned in March 2024 covering 2000 nationally representative adults

[iii] Tony Blair Institute, Investing in the Future: Boosting Savings and Prosperity for the UK, 2023

[iv] Cominetti and Odamtten, Living Pensions: An Assessment of Whether Workers' Pension Saving Meets a "Living Pension" Benchmark, 2022