Are businesses matching green efforts with climate-safe staff pensions?

Only a small number of FTSE 100 firms' pension schemes have shifted their investment approach to take account of climate-related risks, ShareAction research finds

The retirement savings of hundreds of thousands of workers could be "highly exposed" to climate-related risks, with some of the UK's biggest company pension schemes sticking with investment strategies that fail to address exposure to carbon intensive assets.

That is the key conclusion from research by ShareAction published today which warns companies are failing to match their sustainability efforts with 'climate-safe' pensions for their staff. There is a frequent disconnect, the report argues, between company commitments on tackling climate change, and the level of climate risk protections afforded to their employees' savings through corporate pension schemes.

The findings are based on a survey of 25 FTSE 100 companies with some of the largest defined contribution (DC) pension schemes. The analysis includes a host of big corporate names, including Barclays, Lloyds, Tesco, Unilever, Rolls-Royce, and Diageo. It was carried out by ShareAction to assess how the companies' pension schemes seek to protect staff savings against climate-related financial risks.

A growing number of institutional investors fear that many listed companies, especially in carbon intensive sectors, are exposed to a wide range of climate-related risks, including the increased risk of physical climate impacts such as storms or droughts and so-called transition risks, whereby the shift towards clean technologies leads high carbon assets stranded and over-valued.

Of the 25 company pension schemes contacted, 15 responded to the survey, covering around one million workers and £17.5bn of assets under management, according to the campaign group. However, only two of the respondents - HSBC Bank Pension Scheme and RBS Retirement Savings Plan - said they had changed their default investment strategies to reduce the climate-risk exposure of their staff's pensions.

Another six said they were considering further action to address climate-related risks in their investments, including Aviva Staff Pension Scheme and Unilever's Pension Fund DC Investing Plan.

Yet at the same time, the majority of companies taking part in the survey - 13 of the 15 - have publicly backed initiatives aimed at addressing climate risks, such as the RE100 campaign to source 100 per cent renewable power, the Science-Based Targets initiative - through which firms set emissions reduction goals in line with climate science - and the guidelines set out by the Taskforce on Climate-related Financial Disclosures (TCFD), the research shows.

ShareAction said climate change posed a "systemic threat to the global financial system", and that major UK employers therefore needed to both better protect their staff against climate risks and to help them benefit from low carbon growth opportunities.

Some campaigners have argued individuals should take more responsibility to shift their pension funds towards low carbon assets. But today's report highlights an analysis by The Pensions Regulator of data covering around 34,500 DC pension schemes in the UK for the 2016-2017 period, which showed 92 per cent of savers in trust-based schemes were invested in the scheme's default strategy.

Lead author of the report Paul Britton, research officer at ShareAction, said companies taking credible action on climate and sustainability were often more attractive for prospective staff, and that it would therefore "send alarm bells ringing" that pensions at many of these firms are "exposed to unmanaged climate risks".

"These schemes will pay pensions deep into the 21st century," he said. "By more actively managing climate risks in their staff schemes, employers can protect employees for the long-term while demonstrating joined-up thinking on corporate sustainability commitments."

The Prudential Staff Pension Scheme, Diageo Pension Plan, National Grid Pension Plan and the British Airways Pension Plan were among those pursuing "business as usual" approach to their investments, according to the report, while BT Retirement Savings Scheme, the UK Shell Pension Plan, and BAE Systems DC Retirement Plan and a number of others did not respond to the survey's request for information.

Prudential, BT, Shell, and Diageo were all considering BusinessGreen's request for comment at the time of going to press.

ShareAction welcomed the transparency shown by firms which participated in its research, but warned those which did not respond to its survey they were leaving their employees "in the dark" on how they manage climate risks relative to others in the sector.

The report follows an inquiry into pension funds' climate risk exposure by Parliament's Environmental Audit Committee (EAC) last year, which concluded the majority of large pension funds remained "worryingly complacent" about climate and stranded assets risks. In a separate report, the EAC also called for climate risk reporting to be made mandatory for companies and pension schemes.

Mary Creagh MP, chair of the EAC, said ShareAction's latest findings showed too many pension schemes "are lagging behind and failing to take these risks seriously".

"Pension funds have a duty to act in the best interest of their beneficiaries and take account of long and short-term climate risks," she said. "We need to fix the incentives that encourage short-term thinking. Long-term sustainability must be factored into financial decision making."

Pressure has been mounting on pension funds to boost their climate risk management efforts over the past year. Lawyers at NGO ClientEarth wrote to a number of major pension funds last summer to warn them they could face legal action in the future unless they made efforts to properly take account of the risks to their investment portfolios posed by climate change.

Meanwhile, the government has moved to strengthen obligations for pension fund trustees to account for climate risk and environmental social governance (ESG) factors in their investment decisions, so that from later this year all trust-based pension schemes would have to explain how their members' funds are invested.

ShareAction said the forthcoming pension regulation update presented "the perfect opportunity for all schemes to further develop their approach to the management of climate-related risks and opportunities", adding that in today's report there are "no shortage of options for how schemes can act".

"We feel business as usual is in direct opposition to scheme beneficiaries' best interests," it states. "Fiduciary duty therefore dictates schemes must act to address climate change and its implications."

Caroline Escott, policy lead for investment and stewardship at the Pensions and Lifetime Savings Association (PLSA), said the trade body believed climate change posed a "substantial risk to the business models of companies in nearly every sector, and the stability of the financial system".

She welcomed the regulatory changes being brought in from October this year as "helpful in clarifying where and how schemes consider ESG factors such as climate change in their investment strategy". However, she added: "More practical guidance from schemes on how to consider and assess climate risk in their portfolios is always welcome."

One of the participants in the ShareAction research, the Tesco Retirement Savings Fund, said it was currently working to implement greater climate risk measures, including investigating how climate change, and responsible investment more generally, could feed into its engagement with members.

Ruston Smith, chairman of the Tesco Defined Contribution Governance Committee, said climate change was a key influence on future business strategy, and therefore created risks and opportunities.

"Regular training, monitoring and intelligent investment are important in delivering good [net risk adjusted returns and] outcomes for current and future generations of members who rely on their retirement savings in the later years of their life," he said.

Whether on plastics, renewables or sustainable diet offerings, companies are facing increasing scrutiny over their green credentials, and many are stepping up their sustainability efforts by making myriad of green pledges and signing up to global campaigns.

But as climate risks grow alongside awareness of the challenges global warming presents, staff at these companies - particularly younger employees who have the longest to wait to receive their pensions - will increasingly want assurance their retirement savings, as well as the planet, are in safe and sustainable hands.

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