

Work & Pensions Select Committee Call for Evidence: Pension Stewardship and COP26 Comments from the Association of Consulting Actuaries (ACA)



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE: IMMEDIATE

ACA says achieving positive outcomes should be focus not additional compliance reporting

21 June 2021 - The Association of Consulting Actuaries (ACA) in its [evidence to the Work & Pensions Select Committee Inquiry](#) into 'Pension Stewardship and COP26' is supportive of the Government's drive to encourage pension schemes to engage with environmental, social and governance (ESG) concerns as asset owners and to provide greater transparency in this area. However, it is important that any new requirements on pension schemes are applied consistently with the other duties and responsibilities of pension scheme trustees and managers, and that they focus on achieving positive outcomes rather than be seen primarily as additional compliance reporting.

Head of the ACA's Climate Risk Group, Stewart Hastie, said:

"Our view is that the current policy of using risk assessment, disclosure and setting / monitoring of pension scheme targets is the right approach at this stage to taking account of all the risk factors facing the scheme, rather than Government intervening in trustees' responsibility to set the investment strategy in a one-size fits all strategy.

"In terms of setting COP26 targets, most pension scheme trustees are unlikely to be experts in this area and we suggest it is the role of Government (advised by experts) to set and provide guidance on appropriate COP26 targets. However, pension scheme trustees do have a significant role to play in helping achieve the targets by engaging with asset managers and advisers and developing a strategy appropriate to their scheme and asset holdings that is consistent with their duties and fiduciary responsibilities.

"Targets set and acted upon by trustees need to be driven from a perspective of managing risk and returns which in part will depend on Government action to decarbonise business. In addition, for defined contribution schemes, trustees will want to ensure members can access the appropriate funds reflecting their personal views on climate change and acting on their behalf in the design of default investment arrangements. We would also expect pension schemes to focus on effective stewardship and engagement, and not simply disinvestment."

The ACA evidence argues that for defined benefit schemes, trustees will also need to consider the scheme's reliance on the sponsor covenant and the climate change and transition risks associated with that sponsor. For the vast majority of schemes that cannot secure their liabilities through bulk annuity contracts in the short term, trustees cannot 'disinvest' from their sponsor and so will need to engage positively with their sponsors to assess and understand how they are responding to climate related risks, including policy changes that will affect the sponsor.

Stewart Hastie, added:

"We expect Government to engage with the pensions and asset management industry to understand and remove barriers to achieving its aims, for example on the availability of adequate emissions data across different asset classes and consistency of language and reporting. In addition, pension schemes are, and will continue to be, significantly buyers of gilts and the climate targets relating to this major pension scheme asset class is within Government's control."

The ACA evidence noted there is an opportunity for pension scheme members (particularly in defined contribution schemes) to influence achievement of COP26 targets. Complying with new and existing climate-related disclosure requirements should not be at the expense of clear, straightforward communications and positive engagement with pension scheme members in relation to assessing and acting upon climate related risks.

For further comment:

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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