



ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE

Huge increase in member interest in ESG should be a wake-up call for lagging pensions industry

14 December 2020: In the fourth of a series of reports outlining the findings of the ACA's 2020 *Pension trends survey*, the Association of Consulting Actuaries (ACA) has revealed a huge increase in member interest in investments in socially responsible, environmental and climate areas. This substantial engagement from members does not appear to have been matched by strategic change within DC schemes, although DB funds have been more active in this area. Whilst more pension schemes are moving towards TCFD reporting¹, Government policy to make climate-related risk disclosures mandatory will mark a real shift in how seriously pension schemes need to think about climate change, but our findings suggest many schemes have some way to go in recognising the challenges.

The ACA survey was conducted over summer 2020 before the latest DWP consultation on mandatory TCFD reporting and governance. It received responses from 281 employers of all sizes, who together run over 500 pension schemes.

Key views of schemes in the report are:

- **52%** of schemes report greater interest from members in investments in socially responsible, environmental and climate areas
- In selecting investment managers, **45%** of schemes take climate risk into account along with other investment criteria in appointing investment managers
- **23%** take no account of climate risk in their manager selection decisions
- However just **12%** of DC schemes say they have a default fund that presently takes account of climate risk with a further **16%** reviewing their approach
- Whilst **37%** of DC schemes say members can self-select sustainable/low carbon funds, the vast majority of DC savers (**92%**) invest upwards of **80%** of their savings in default funds
- **55%** of DB schemes responding to the survey say they have made or are actively considering asset allocation changes in their investments to minimise climate change risks or to enhance opportunities, but **36%**, following a review, are not making asset allocation changes as a result
- **36%** of DB schemes say they have not considered climate change risk at all in the context of their sponsor's covenant.

Commenting on the findings, Stewart Hastie, who Chairs the ACA's Climate Risk Group, said:

"As the owners of over £2 trillion of assets, UK pension schemes have a massive role to play in action on climate change risks. The ACA is supportive of aligning the reporting and governance of pension schemes on climate-related risks to the TCFD requirements. Whilst it is positive that some schemes have started to consider and take account of climate-related risks in investment matters, our survey findings show that many schemes have a long way to go to catch up with the ambitions of Government and industry."

"The ACA believes the implementation of the TCFD requirements will need to be flexible and evolve as knowledge and experience of climate risk management develops in the UK pensions industry. To help schemes implement effectively and efficiently, we have called for The Pensions Regulator to produce an Annual Climate Risk Management Statement to guide trustees in this area."

Also commenting on the findings, Vanessa Hodge, Chair of the ACA Investment Committee, added:

"This year's survey underscores that defined contribution schemes are falling some way behind defined benefit schemes in both recognising climate risks and in reviewing how investments might need to be adjusted to mitigate, or take advantage, of climate challenges. Whilst Master-trusts are shaping their default funds to take account of climate risk, it seems many traditional DC schemes are relying on members to mitigate risk through their self-select fund options. This is a concern given the vast majority of members' funds are invested in default funds."

"That said, many defined benefit schemes are responding more slowly than we might expect given the widespread public comment and Government calls. Whilst it is encouraging that a large proportion are taking climate risks and opportunities into account at the strategic asset allocation level, over a third of schemes say they have not considered climate risk in their assessment of their sponsors' covenants. This picture will change given increased regulatory focus on climate change and the lead given by pension professionals advising sponsors and trustees."

A final report on the 2020 Pension trends survey's findings is due to be published early in the New Year.

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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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¹ Task Force on Climate-related Financial Disclosures (TCFD)