JANUARY 2025

The rise of sustainable pensions

How ESG-friendly is your workplace pension?

Benefits Expert.

ROUND TABLE

Editor's intro

Claire Churchard, editor, Benefits Expert

Sustainability is becoming a central focus in the pensions sector, with providers striving to reduce their carbon footprints and improve their environmental, social, and governance (ESG) credentials. Despite these advancements, employers face significant hurdles in engaging employees with sustainable pension options. A recent Benefits Expert roundtable in London explored this issue, bringing together industry leaders, including representatives from Costain Group, Skanska, Associated British Ports, and sustainability campaign group Make My Money Matter.

Round table attendees debated the findings from the Benefits Expert Guide to Understanding Sustainability in Workplace Pensions, which is based on research from our sister title Corporate Adviser Intelligence (CAI). It revealed that pension schemes are making rapid progress, with many on track to achieve large reductions in carbon emissions. On average, schemes now produce 61.1 tonnes of carbon per £1 million invested, though a stark disparity remains between the best and worst performers (see table on page 5 for the full results). Despite this progress, delegates agreed that a key challenge lies in effectively communicating these achievements to employees, who often remain disengaged or apathetic about their pensions.

Interest in ESG issues is growing, but the progress of pension providers remains relatively unknown among employers and employees. To bridge this knowledge gap, some employers have adopted strategies to raise awareness such as holding ESG events or dedicated 'weeks' to enable and encourage discussion.

As ESG continues to rise up the corporate and employee agenda, employers have an opportunity to use the increase in pensions sustainability to highlight the positive impacts workplace saving can have and further engage people with their pensions.

INSIDE

The rise of sustainable pensions: what does it mean for employers

Sustainable pensions are advancing, but the real challenge lies in cutting through apathy. Can employers inspire workers and boost engagement? By **Jerome Smail**

Sustainability is a growing focus in the pensions sector, with providers making significant strides to reduce their carbon footprints. Despite this progress, employers face significant challenges in engaging workers with sustainable pensions, battling widespread pension apathy and the complexity of ESG (environmental, social and governance) issues.

The importance of sustainable workplace pensions and the challenges of engaging employees with them were the topics under discussion at a recent Benefits Expert roundtable in London. In attendance were:

- **Tara Thomas**, pensions and benefits manager, Associated British Ports
- **Rosie Lacey**, head of pensions and benefits, Costain Group
- **Mohsin Harhara**, head of pensions, Skanska
- **Tony Burdon**, CEO, Make My Money Matter

First under discussion were the findings from the Benefits Expert Guide to Understanding Sustainability in Workplace Pensions, revealing that workplace pension schemes are decarbonising rapidly and are well on course to achieve 50 percent reductions by 2030, in line with pledges.

On average, schemes now produce 61.1 tCO2e/£m invested, with top performers such as National Pension Trust emitting 23.4 tCO2e/£m. However, a striking gap remains, as the highest emitter, SEI, produces around four times the carbon of the cleanest schemes at 108 tCO2e/£m (see table on page 5 for full results).

Nevertheless, it's clear from the bigger picture that progress is being made. The delegates were in broad agreement that for many employers, the challenge is how to communicate this progress in a way that resonates with employees.

Challenges in engaging employees

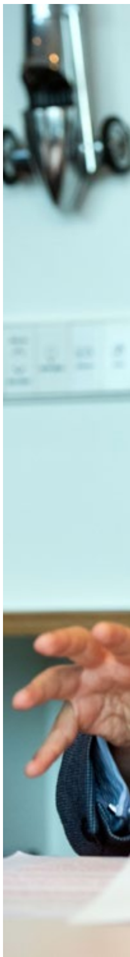
A recurring theme among speakers was the difficulty of getting employees to engage with pensions beyond the potential return, with sustainability rarely on the radar.

As Rosie Lacey of Costain Group noted: "The company, I think, is more attuned to it than our employees are. I don't think they actually think about it. So day to day, they've got their pension, and that's fine."

According to Tara Thomas of Associated British Ports pension engagement is "quite low, in that people just want to know that they're getting a pension, and they want to know that they're


Tony Burdon


Tara Thomas



getting high returns, or at least a pension at the end of the day".

Even when employees do engage, ESG may not feel like a priority compared to more immediate concerns, and employers take on the duty of keeping tabs on the ethical considerations.

As Lacey put it: "It's almost like a secondary tier. Get them in the pension, they have to be interested, and I'm then reliant on our provider to say, 'Yes, our default fund is heading in the right direction for ESG,' because we know that's where they'll stay."

ESG engagement strategies

Despite these difficulties, some employers have found effective ways to raise awareness of sustainable pensions. As Lacey explained, Costain hosted an ESG week, during which Scottish Widows was invited to present to employees, giving the provider the opportunity to discuss its attitude to sustainability and how it is managing ESG interests.

Another example came from baby food company Ella's Kitchen, a B Corporation - meaning it meets high standards of social and environmental performance.

Tony Burdon, CEO of sustainability campaign group Make My Money Matter, explained: "They looked at the scheme they were in. They didn't think it was ambitious enough from net zero, and so they hired a financial advisor to look at alternatives.

"They got a few of the companies in to make a pitch. They selected one... and employees said it was the best thing management had done for them that year."

Making pensions part of a broader sustainability narrative within the organisation can also help. Using the example of Costain once again, the employer has undertaken a carbon capture project in association with BP, sending the signal to employees that sustainability is a key focus for the organisation.

Communicating with offline or field-based employees is an added challenge for some industries, but one that is being addressed effectively. For example, Thomas explained: "One thing we do have is TV screens up in the mess room, and we're trying to advertise things on there, which is a good way of getting to people."

Digital tools also hold potential for improving access and understanding. The intranet, for example, can be an invaluable resource for spreading the word. There are also ways to maximise the impact and make the connection with the organisation's values, according to Mohsin Harhara of Skanska.

"It's about conveying the message, but not only in terms of the material of the pensions web pages, but also how it can be framed as an attention grabbing headline on the front page so every employee sees it," he explained. "And it could be something like, 'This is what our values are,' and also, 'This is what we're doing with pensions,' as well, so it flows."

This approach can also complement a more comprehensive engagement drive, Harhara noted.

"The communication can include messages and presentations," he explained. "You can have a slide on ESG,


Mohsin Harhara

employee newsletters with a section on sustainability, good news messages, information where employees can check the ESG credentials of pension funds."

Building momentum

As sustainable pensions become the norm, employee interest in ESG is likely to grow. Younger generations, in particular, are more aware of sustainability issues and may push for greater transparency. However, employers must balance these demands with the need to deliver strong financial returns.

The speakers agreed that while progress is being made, the journey toward sustainable pensions is far from complete. For now, employers can make the biggest difference by embedding ESG into their broader communications and fostering a culture where pensions are seen as part of a sustainable future.

As Burdon concluded: "If you notionally believe that your staff want to be in the right kind of thing, then the onus, I think, is on you to select something that's doing the right thing."

Carbon footprint of leading DC providers

	Date	Carbon footprint (tCO2e/£m)
National Pensions Trust*	31 Mar 2023	**23.4**
Cushon	30 Sept 2023	**29**
Aon	31 Dec 2022	**37.9***
Fidelity	31 Dec 2022	**38.5**
TPT	30 Sept 2022	**40.1**
Cushon	30 Sept 2022	**42**
Hargreaves Lansdown	30 Jun 2023	**43.3**
Standard Life	31 Dec 2022	**46**
Lewis Workplace Pension Trust	31 Mar 2023	**48.9**
Aegon	31 Dec 2022	**58.5**
Nest	30 Sept 2023	**60**
Royal London	31 Dec 2022	**62.5**
Now: Pensions	30 Sept 2023	**63.1**
Aviva	30 Sept 2022	**68**
The People's Pension	31 Mar 2023	**70**
Scottish Widows	31 Dec 2022	**78**
Fidelity	31 Dec 2021	**81.8**
LifeSight	31 Dec 2022	**82****
Legal & General	5 Apr 2023	**88**
Mercer Master Trust	30 Jun 2023	**98.4***
Smart Pension	31 Dec 2022	**100.8**
SEI	31 Dec 2022	**108**
Smart Pension	31 Dec 2021	**147.3**
Average	-	**61.1**

*Growth **Diversified growth fund

This exclusive data is from Benefits Expert's sister title Corporate Adviser Intelligence (CAI). It examined data from 20 major pension providers and found that seven of them have reduced the carbon footprint of their defined contribution (DC) portfolios by 50 percent or more in the past year.

As a result, the average carbon footprint of DC pensions is now 61.1 tonnes of carbon per million pounds sterling invested.

If your pension is around 200,000 pounds, which is not a huge pension, we've calculated that your carbon footprint just for your pension would be about 12 tonnes. Averages for individual carbon footprints vary, but if you take the average as around 5.8 tonnes that would mean if your pension is more than twice your individual footprint.

You can find more in-depth data and analysis from this research in the Benefits Expert 'Guide to understanding sustainability in workplace pensions'.


Tara Thomas


Mohsin Harhara

What would it take for you to switch providers?

Switching pension providers is no small task for an employer. So if the general trend shows pension providers are decarbonising and becoming more ESG-friendly overall, why should they switch? By Claire Churchard

The broad trend shows that pension providers are decarbonising their investment portfolios at a rapid rate.

Providers have adopted the goal of reaching net zero emissions by 2050, with most providers aiming for a 50 percent reduction in portfolio emissions by 2030.

It's not just CO2 emissions that are the focus of pension provider action. ESG screening has increased for pension funds as well. The most widely excluded investment assets are controversial weapons manufacturers, thermal tar and violators of the UN compact. Although, like the providers' carbon footprints, ESG screen exclusions vary.

But progress is unmistakable. And given the improvements, you might wonder why busy employers would want to move to another scheme if everyone is improving?

The obvious answer is the growing concern about the impacts of climate change.

In June 2024, 80 percent of people globally said they want stronger climate action by governments, according to the worldwide UN Development Programme survey.

Tony Burdon, CEO at Make My Money Matter, says: "Eighty percent of the population of the world are worried about climate change and want their governments to sort it out. They're not sure they can do much, but they just want responsible people to sort it out. That's the demand.

"For employers, businesses, pension funds, the job is to try and work out how to do it. That demand is there. With pensions, it's such an opaque, impossible thing for normal people to get a grip on," he says.

Changing provider

However, changing pension providers is complicated and ESG is not necessarily a top priority when it comes to making that decision.

"For me, the trigger to switch wouldn't be the ESG, the trigger will be that the funds aren't performing, or the provider has become really bad at administration, and people at retirement are not getting the retirement pot they should be, or there's something fundamentally going wrong," says Rosie Lacey, head of pensions and benefits at Costain Group.

"At that point, I would say, right, we are going to switch, and that will then form part of the review going forward."


Rosie Lacey

Lacey says that rather than switching to a more ESG friendly pension, as long as there is nothing wrong with the provider, staying with them means employers have the opportunity to encourage that provider to become more ESG focused.

Mohsin Harhara, head of pensions at Skanska, agrees, adding that employers with a large fund, who are important clients of the provider, have got more influence than the smaller funds.

"In terms of numbers as well, if enough of these larger clients are saying the same things to make or to force changes, [it could make a difference]."

For Harhara, a potential prompt for switching pension provider "would probably be a lot of bad press".

He says: "Climate change is going to come more to the forefront as these [emission reductions] deadlines arrive. Then if there's a pension provider that's not doing what they 'say on the tin', or not upping their game, then they're probably going to get some exposure in the media, and a firm might not want to be associated with that."

Tara Thomas, pensions and benefits manager at Associated British Ports, questioned how much impact switching to a more ESG-friendly pension provider would have if you were moving to one with only a slightly better score, suggesting that the difference would need to be substantial to influence decision making.

For Burdon "the shock is at the bottom [of the rankings], no one should be with them", he says.

But he acknowledges that for employers, the priorities are to look at the usability of the scheme for your employees and returns, and then look at ESG or sustainability.

Costain's Lacey adds that she is disappointed by the performance of some of the funds in the table (see page 5), particularly the ones that are auto-enrolment vehicles. She says she might have expected these funds to have performed better in the rankings.

Power in numbers

Skanska's Harhara, reiterates that employers have a part to play in putting ESG on the agenda of pension committee meetings. "We have a role in looking at the performance and holding providers to account where they perform badly, [to ensure] that they're trying to get some metrics around sustainability as well. But I think it's power in numbers, if we all do our bit, we can make a change."

He remembers a past example, where a provider introduced new sustainable self select funds, and made some changes to the default fund.

"Shortly after launch, one of the sustainable funds wasn't performing very well. So we asked why."

At the time, the information wasn't available. So their provider investigated further, he explains.

"It turned out that the stock responsible for the underperformance was one that they had high conviction for for the future. So in the short term, they were trying to turn around the company and they thought there was potential there, but it was affecting performance. But by doing that, asking the question, we were putting soft pressure on the provider by showing them we care about this."

Employees asking for more sustainable pensions could act as another lever to drive change.

However, Thomas says: "One of our company values is to do with sustainability. But I've not actually been approached [by employees] in terms of how the pension covers that."

Harhara says he doesn't think that the rise of more sustainable pensions will necessarily increase pension take up. But highlighting the shift towards greater sustainability could help to retain and attract talent, he adds, as people become more interested in ESG.

To really move the needle, Costain's Lacey flags a potentially controversial option. "If you're being forced to auto enroll employees, can't the government say, 'the vehicle that you're enrolling people in has to be compliant?'"


Tony Burdon

Benefits Expert.