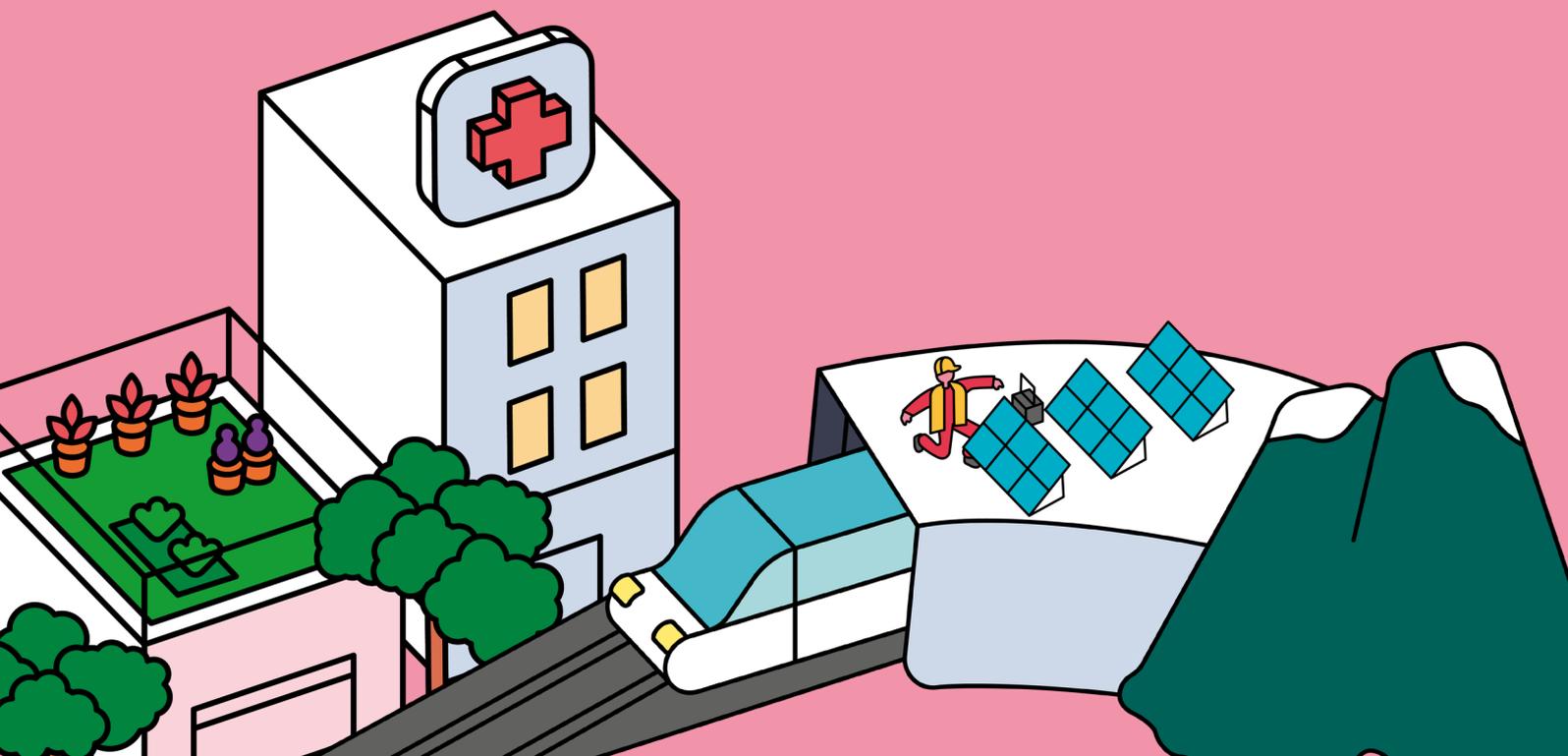


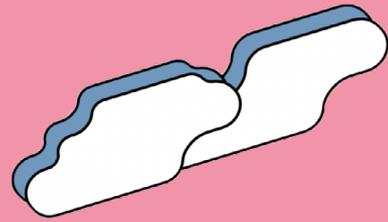


FTSE100 Pensions Emissions

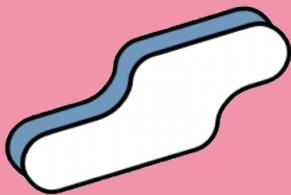
An analysis of the untapped power
of corporate pensions

September 2022





Key Findings and Call to Action



Introduction

As businesses across the UK grapple with how to reduce their carbon emissions, they are missing a poorly understood yet extremely potent climate action: harnessing the hidden power of their pensions.

The UK pensions industry is worth £3 trillion, with £20 billion invested each year into pensions by UK businesses and their employees. This is an astonishing amount of money, and it is no exaggeration to say that the decisions made about how it is managed, and where it is invested, will shape the futures we grow old in.

Yet a lack of awareness, poor transparency and a passive approach to pensions means that from a sustainability perspective

they remain marginalised; on the periphery of CEO decision making and at arms' length from corporate sustainability initiatives. This persists despite the critical role they can – and must - play in tackling the climate emergency.

As a result, the money in corporate pensions is often invested in ways that not only jeopardise our futures, but also undermine the values, commitments, and sustainability strategies of those same businesses.

Make My Money Matter is changing this - campaigning to highlight the links between corporate pensions and climate change, and working to ensure all companies take urgent steps to green their schemes.

Richard Curtis, Co-Founder at Make My Money Matter



“This report leaves us in no doubt - pensions are one of the most powerful tools UK businesses have to tackle the climate emergency. But for too long, businesses have failed to capitalise on this opportunity - company pensions now finance a staggering 7 times more carbon than the emissions produced by those same businesses. For organisations to be acting credibly and decisively on climate, green pensions must be a crucial part of their plans.”

“We hope this report acts as an urgent wake-up call and puts company pensions - and the billions invested by them each year - at the heart of all organisations’ sustainability strategies.”

The climate impact of corporate pensions

The climate impact of pensions has long been peripheral to all but the most sustainably minded organisations. But pensions are not peripheral – they are fundamental. They amount to trillions of pounds of our money, invested in thousands of companies worldwide, which unwittingly enable some of the planet’s most carbon intensive industries.

Yet despite this, businesses have not reported on the emissions generated by their pension funds, nor have they focussed on how to ensure their pension investments are helping tackle the climate crisis, rather than fuelling the fire.

To shine a light on this critical issue - and highlight the hidden emissions financed by our pensions - Make My Money Matter, in collaboration with [Scottish Widows](#) and [Route2](#) - has undertaken a unique study on the carbon footprint of corporate pensions. By assessing the emissions associated with corporate pensions – and comparing those to the more commonly reported scopes 1 and 2 company operational emissions – we can see for the first time the carbon footprint of UK pensions side by side with corporate emissions.

In doing so, we hope to demonstrate why pensions must be the new frontier for all businesses acting on sustainability.

**Deborah Meaden,
Businesswoman of
Dragon’s Den fame**



“Climate change is the biggest existential threat we face, with businesses having a crucial role to play in tackling it. And one of the most powerful tools they have at their disposal is their money.”

By putting their pensions to work, and greening their company schemes, businesses can help address the climate crisis, and give themselves a competitive advantage while they’re at it.”

**MAKE MY
MONEY MATTER**

Key findings

Specifically, this research shows:

7x higher

The carbon emissions financed by typical FTSE100 company pensions are 7 times higher than the reported Scopes 1-2 operational emissions of those companies

131 million tonnes

The total carbon emissions financed by FTSE100 company pensions is estimated to be 131 million tonnes, equivalent to roughly one third of the UK's annual carbon emissions

Despite these findings, awareness of the issue remains worryingly low, with action taken by business leaders on this agenda lagging behind progress in other areas:

10%

Of the FTSE100 companies, fewer than 10% have included pensions in their publicly available sustainability plans

45%

Fewer than half (45%) of UK CEOs and Managing Directors make any connection between their company pensions and climate change

This inaction persists despite growing employee demand for action:

72%

Of employees say it is important that their employer invests their pension sustainably

Top 5

Sustainable pensions and green finance options are now included in the top five of employee desires from new employers, alongside flexible working and attractive holiday packages

The opportunity

Make My Money Matter believes these findings represent an enormous, but as yet unrealised opportunity for businesses to lead on climate change.

By ignoring their pensions, businesses are scratching the surface of their environmental impact; often focussing on the low hanging fruit but failing to address the urgent, unreported, and systemic impacts of their money. As a result, the financial sector is on course to fund emissions well beyond the global goal of a

1.5°C temperature increase that the Intergovernmental Panel on Climate Change (IPCC) says is required to maintain a safe planet.

Conversely, the scale of the problem correlates to the opportunity for impact. By deliberately and proactively taking steps to green their pensions, and align their financial footprint with their sustainability commitments, businesses can drive change that is not only good for the planet, but good for their employees and their organisation too.

By having green pensions, UK businesses can:

- 1. Significantly reduce the emissions associated with their pension investments**
- 2. Align their corporate sustainability agendas with pension investment practice**
- 3. Send a powerful signal to the UK pensions industry – and the companies in which it invests – to cut their carbon emissions**
- 4. Raise awareness of this critical issue across society**
- 5. Engage an increasingly climate conscious employee base**

Call to action

This research shows that leading UK businesses are unconsciously funnelling billions of pounds into carbon intensive industries each year, despite their corporate climate commitments. But it doesn't have to be this way.

Make My Money Matter are calling on all UK businesses to take urgent steps to green their schemes and utilise the hidden power of their pensions in tackling the climate emergency.

1

As a first step, Make My Money Matter is calling on all businesses to sign up to [The Green Pensions Charter](#) – a public statement of support for cleaner, greener pensions, and a commitment to offer a net zero aligned pension to their staff. This represents the beginning of an integrated journey with their pension provider or their trustees to drive longer term sustainability for their pension investments

2

Beyond this, businesses can review the environmental impact of their broader finances – their corporate bank accounts, and their investments – and so deploy their full arsenal of tools in the battle against climate change

3

Finally, businesses must champion this agenda. By using their voice to engage their staff and customers – and capitalising on their platform to advocate for reform amongst pension schemes and trustees - businesses can drive systemic change across the pensions industry and beyond

While businesses have enormous power, we understand that the responsibility for action on sustainable finance or emissions reductions doesn't rest with them alone. Change is required throughout the investment system - from asset owners and managers to the companies they invest into the bodies who set the requirements for emissions reporting.

Within this, those who set the standards for sustainability reporting should make clear that companies must measure and disclose their financed emissions. By doing so, companies will be able to see the impacts of their money more clearly, and work urgently and proactively to decarbonize their finances.

Our vision

While this report has focussed on the FTSE100 given their size, standing and influence, we believe the principles of the study, and the key findings identified, are applicable to organisations of all shapes and sizes. We therefore hope this report encourages all businesses to unlock the power of their pensions, ensuring the £20 billion invested each year through those schemes builds a better world, while delivering returns for savers.

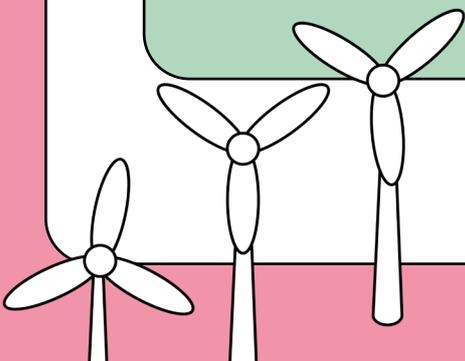
For far too long, the role of workplace pensions in tackling climate change has flown under the radar. But not anymore. In revealing the impacts of these investments, we hope to create a new frontier for corporate sustainability, while driving long term, systemic change across the UK pensions industry.

We believe our pensions are our hidden superpower in tackling the climate emergency, and it's time we all used them to help change the world.

"With over £2.7 trillion invested in pensions in the UK, we can't overlook the significant impact our pensions have on the future success of a net-zero economy – and ultimately, on the livelihoods of people and the planet. As this report shows, whilst progress has been made, there is a huge amount of work to be done in helping employers ensure their employees' savings are invested sustainably. Many companies simply aren't aware of how their pension schemes are undermining or even undoing the sustainability progress they are making.

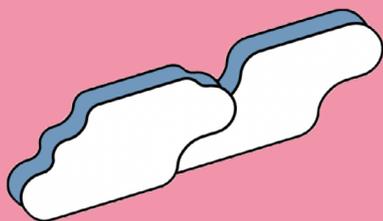
Today's workforce expects its employers to take an active stance on social and environmental issues. With the help of providers, business leaders now have real opportunity to unleash the power of pensions as a force for positive change"

Maria Nazarova-Doyle, Head of Pension Investments at Scottish Widows





Appendix: Approach, Methodology, and Limitations



Detailed findings

- The UK pension scheme of the typical FTSE 100 company is responsible for financing at least 7 times their disclosed UK operational (scope 1 and 2) emissions.
 - Applying an estimate for the emissions of undisclosed third-party DC pensions meant the typical FTSE 100 company's UK pension total is estimated to be responsible for financing at least 11 times their UK operational (scope 1 and 2) emissions.
- The total pension size (£) of the companies included in this analysis is estimated to be £517bn.
 - Applying an estimate for the undisclosed DC pension pots, the total increased to £639bn.
- The total carbon emissions financed by schemes of the companies included in this analysis was estimated to be 131 million tonnes.
 - Applying an estimate for the undisclosed DC pension pots, the total increased to an estimated 161 million tonnes.

Sector-specific findings

- Of all sectors reviewed within this analysis, only Oil, Gas and Energy companies are emitting more through their scope 1 & 2 UK operations than their financed UK pension emissions.
 - Even for these carbon intensive industries, the financed emissions of their pensions still represent ~60% of their scopes 1 and 2 UK emissions

Considerations for research

Key Context

These findings are based upon the following high-level approach:

1. **Companies in scope** – based on 65 of the FTSE100 given 35 did not provide sufficient pension information to be included within the analysis.
2. **Company emissions** – this includes reported scopes 1-2 UK emissions of in-scope companies. UK portion of emissions was identified based on UK staff numbers.
 - a. Scope 3 emissions were considered and estimated given their importance to this conversation, however, were not included in final analysis given availability and consistency of data.
3. **Company pensions** – based on UK only pension pots of FTSE100 companies
4. **Pensions emissions** – based on estimates of the scopes 1-2 emissions of the companies and assets financed by those UK pensions
5. **Pension focus** - based predominantly on Defined Benefit pension calculations. Since many companies provided no information on outsourced DC pension provision, the analysis was focussed on an assessment of DB pension pot emissions.
6. **Typical pension** – based on a 'median' estimate of results in order to identify a typical FTSE 100 pension scheme
7. **Scopes** – report analysed ratios, based on comparing operational emissions from Scope 1 and 2 corporate emissions, with the Scope 1 and 2 emissions of the companies and assets in which pensions are invested.

Disclosure Gaps

Throughout this research, an absence of adequate data has inhibited our ability to collate more comprehensive findings – on each of company emissions, company pensions, and pensions emissions. As a result, we consider these findings to be conservative estimates given the low levels of available, disclosed data. Specific disclosure statistics from this report can be found below:

- 96% companies report operational Scope 1
- 89% companies report operational Scope 2
- 70% companies report Scope 3 - 26% include category breakdowns, though there was an additional lack of clarity around what is negligible and what wasn't estimated
- 71 company schemes disclose total DB pension assets' UK values
- 5 company schemes disclose DC pension asset values
- <10 disclose outsourced DC provider (e.g. where a company arranges a DC pension for employees which is provided by a third party)
- 66 schemes disclose pension asset class splits (or provide a way of deriving them)

More precise calculations will be possible as better emissions reporting is undertaken and disclosed, both by companies (on their emissions information and pension offering) and pensions/financial institutions (on their investments and financed emissions).

Methodology

Description of the methodological approach

The methodology used within the analysis of the FTSE 100 companies' operational and pensions carbon emissions footprints followed a 3-step process.

Step 1) Estimating GHG (Greenhouse Gas) intensity of pensions asset classes

Firstly, a GHG intensity was estimated for each pension asset class.

- Given limited transparency in UK pensions, often only a small number of top holdings are publicly available.
- Therefore, a 'Top-down' approach was taken, which aimed to derive the total value of the FTSE 100 Pension Schemes and their asset classes through disclosures and applied an intensity for each asset class to estimate emissions.
- For example, for equities, the MSCI ACWI index was used to estimate the country-industry sector composition for this asset class and by inputting the investment by country and sector into the core EMRIO (Environmentally Extended Multi Region Input-Output Model) - which contains a direct CO₂ intensity for all sectors in all countries as well as the upstream CO₂ requirements of a sector to operate - an estimate for direct and upstream indirect emissions was calculated. This modelling approach is frequently used to help quantify indirect CO₂ emissions.
- For Private Equity the MSCI ACWI was also used to estimate the emissions, meaning the intensity for this class was equivalent to public equity.

- To derive a CO2 intensity estimate for government bonds, we looked at governmental functions contained within the core EMRIO model, for example, state government, local government, defence activities, public security and law and order activities

Step 2) Applying intensities to corporate pension disclosure data

Secondly, these intensities were applied to the aggregate companies' pension disclosures. Using the intensities per asset class calculated from the above calculations, combined with the pension disclosures of the total asset values (by asset class) of the FTSE 100 companies pension funds applicable to UK employees, an estimation of the pension emissions for each scheme could be calculated, following the approach outlined below.

Pension disclosure data: assets and funds in scope

- Where the UK pension scheme size was disclosed, along with asset class breakdowns these asset class total monetary amounts were applied to intensities for each asset class to generate a total-emissions estimate for each asset class portion of the FTSE company's pension fund. Each pension scheme total only included UK employee specific pension funds.
- For the purposes of this calculation, only public and private equity, government and corporate debt categories within the pension schemes were considered within the analysis. For asset classes listed as "Pooled Investment Vehicles", "Other", "Liability matching assets", we used a proxy of the average intensity of assets from the disclosed asset classes above held for that company's pension scheme to estimate emissions from these categories.
- Given the nature of less defined asset categories, such as cash, cash equivalents, property and derivatives and the availability of data for these asset classes, estimates for these emissions were deemed out of scope. The presence of these out-of-scope assets means it is inevitable that the total CO2 estimate from the pensions portion will be an underestimate.

Pension scheme and asset class proxies

Where suitable proxies were available to derive part of the information required, such as the total UK portion and asset class splits, these were applied as outlined below.

However, schemes not providing any information on the size of pension scheme or asset class information (e.g. due to it being an outsourced Defined Contribution (DC) pension pot) were excluded from the analysis.

- Where total value of the UK portion of the pension pot was not provided, the ratio of UK to total global employees was applied to the global pot total to derive the estimated UK size. Where the asset class breakdown for the UK pension was not given, the global asset-class breakdown was used to approximate the underlying composition.
- For defined benefit (DB) pension schemes, where asset class splits were not provided, a ratio of the average asset class splits across the remaining FTSE 100 companies (where these asset splits were provided) was applied to approximate the underlying composition.
- Similarly, where disclosure did not give granularity regarding the underlying assets within a category (such as "debt") the ratio of corporate bonds to gilts from the other FTSE 100 companies for which these splits were provided was applied to approximate the underlying composition.

- For companies with a combination of defined benefit (DB) and an outsourced defined contribution (DC) pension pot, these companies largely did not disclose the asset size or underlying asset classes held within the DC pension. To address this, 2 different approaches were taken.
 - The first analysis involved a predominantly DB only calculation, where the outsourced DC pensions for which no figures were given were excluded from the pension pot emissions calculations. This means the figure included within these ratios will inevitably underestimate the total company pension emissions.
 - A second approach included a proxy estimate for the emissions from these excluded funds has been included in the full results

Step 3) Calculating Operational emissions

Finally, the FTSE 100 company operational emissions were determined through a combination of disclosures and Route2's modelling approach

- The company disclosed emissions were used as the primary data source. Scopes 1 and 2 data was found for 89% of companies
- A ratio of the UK to total global employee was applied to total global emissions to estimate an operational footprint for the UK. This approach was deemed more representative of emissions per employee than a revenue approach, due to the specialised nature of globalised operational structures and their resulting geographic emissions.

Assumptions and limitations

Key limitations were driven largely by the availability of information.

- Firstly, of the 100 FTSE companies and schemes examined only 65 had sufficient data disclosures to be included within the analysis.
- Secondly, since many companies provided no information on outsourced DC pensions, the exercise was predominantly an assessment of DB pension scheme emissions.
 - A proxy for outsourced and undisclosed DC based on the typical DB to DC ratio and a typical DC asset split derived from UK macro data was applied to scale up the DB only disclosures to calculate a ratio that included the estimated emissions from the DC portion.
- Third, due to an absence of disclosures on pension fund holdings, a top-down modelling approach using representative benchmarks was applied to estimate breakdowns and intensities for asset classes.

Furthermore, it was important to consider the potential implications of the GHG Scope accounting framework, and the distinction between real and financed emissions within the analysis. Due to the nature of GHG Scope accounting, adding Scope 2 and Scope 3 emissions from UK entities could be considered as double and triple counting each entity's actual Scope 1 emissions. Similarly summing financed with real emissions would be potentially double and triple counting. As a result, this report focussed on comparing ratios, mindful of these implications.

Results summary

Final ratios were calculated comparing various combinations of modelled and disclosed values for the Pensions and Operational emissions. The final results focussed on using only the disclosed Scope data and are based on the ratio of the financed Scope 1 and 2 emissions for Pension investments, compared to the FTSE100 companies' scope 1 and 2 operational emissions.

Sector	Ratio of Pensions Scopes 1+2 financed emissions to: Operational Scopes 1+2 emissions
All	7.4
Banks, Diversified Fin & Insurance	158.0
Oil, Gas, Energy	0.6
Metals & Mining	2.1
Electric and Gas Utilities	2.8
Water Utilities	5.7
Telecommunications Services	55.4
Software Services, Tech, Hardware	4.5
Information, Publishing and Advertising	15.3
Pharma, Biotech and Lifesciences, Health	25.7
Food, Beverages & Tobacco	13.3
Food, Staples & Misc. Retailing	5.2
Construction, Engineering & Real Estate	2.5
Textiles, Apparel & Luxury Retail	10.1
Aerospace & Defence	17.0
Chemicals, Electrical Engineering and Packaging	5.1

Note on Financial Services: The nature of financial companies means the financed emissions of their pensions portfolios tend to be much large in aggregate than the emissions from their direct operations or energy consumption. Typically, these financed emissions were in the order of hundreds of times the equivalent operational footprint, based on Scopes 1 and 2. Were we to include their scope 3 or 'financed emissions' of those companies, where the majority of their environmental impact derives, the ratios would significantly shift.

Sources

- [Corporate Adviser Research - Master Trust and GPP defaults Report April 2022](#)
- [Thinking Ahead Institute - GPAS 2022 Report](#)
- [MSCI ACWI Index](#)
- [UK Emissions](#)
- [GHG Protocol](#)
- FTSE 100 Company Annual Reports



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