UK Pensions:

CLIMATE ACTION REPORT

An analysis of leading pension providers' action on climate change

February, 2024

Make
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Money
Matter

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Introduction: Pensions and Climate Change

WHY PENSIONS

There's £3 trillion in UK pensions. This money is owned by all of us, and is invested to build our savings for the future.

But from fossil fuel expansion to deforestation, these investments often contradict our values and jeopardise our futures.

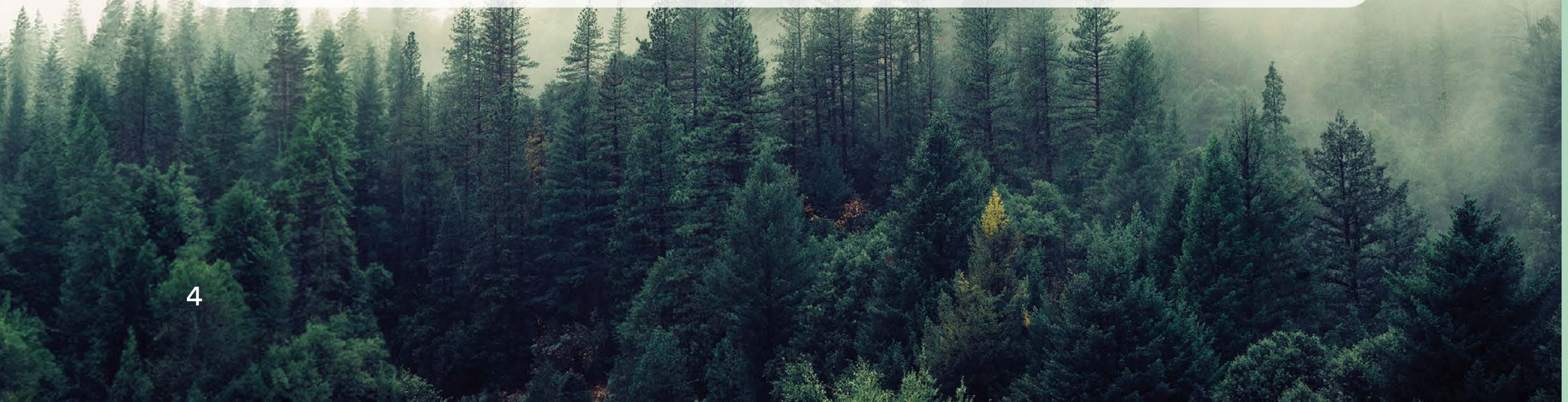
This means vegans may be investing in the meat industry, medics in tobacco, and climate activists in the worst fossil fuel companies – making us accidental investors in the companies we avoid, or the practices we fight against.

Make My Money Matter is trying to address these challenges by:

1. Raising **awareness** of what our pensions get up to when we're not looking
2. Providing savers more **voice** and **choice** in where their money goes
3. Driving systemic **change** in the industry so our pensions help tackle the climate crisis

To help deliver on these goals, we've ranked the UK's largest 20 Defined Contribution (DC) pension providers on their approach to tackling climate change. We hope this report helps all pension holders – from individual savers putting into a pension for the first time, to leading businesses offering pensions to their employees – to see how green their pensions really are, and, ultimately, to make their money matter.

Please note, this report does not constitute financial advice, and is purely an analysis on the climate policies and practices of leading providers.



HOW OUR PENSIONS ARE LINKED TO CLIMATE CHANGE

If you have a pension, you have power. So much power that greening your pension reduces your carbon footprint 21x more than if you gave up flying, went veggie and switched energy provider combined.

From driving emissions reductions in investee companies to combating deforestation, from financing climate solutions to phasing out money for fossil fuels, our pensions have a key role to play in delivering climate action on the journey towards net zero by 2050.

But right now, our money is likely invested in ways that are damaging the planet, destroying nature, and driving climate change. Research from Make My Money Matter shows:

1. The total carbon emissions of our pensions is **330 million tonnes each year**. That's more than the UK's entire carbon footprint combined
2. £88 billion of UK pension savers' **money is invested in fossil fuels**. That works out about £3,000 per pension holder
3. £300 billion of our money is invested in companies **with a high risk of deforestation**, destroying nature, and jeopardising lives and livelihoods around the world

But it doesn't have to be this way.

Our money can move from the damaging, destructive industries of the past, and into the cleaner, greener businesses powering the transition to a more sustainable world.

In fact, our **analysis** shows that the UK pensions industry could invest a staggering £1.2 trillion into renewable energy and climate solutions by 2035; building the economy, tackling climate change, and future proofing our savings.

This action isn't just good for the planet and our pockets – it's popular too. Two thirds of all pension holders support their scheme investing in renewables, while less than one in five want their scheme financing fossil fuels.

That's why we're building a movement to make money matter, and ensure we all have pensions to be proud of.

Our 2024 Climate Action Report

While we've seen green shoots of progress from the pensions industry since we launched our campaign – including dozens of leading providers setting robust net zero targets, including halving emissions this decade – progress has been too slow, with too many words and too little action.

The climate emergency poses a risk not only to our pensions, but also the world in which we want to retire into, and so we need leadership from the industry. With 2023 confirmed as the hottest year on record – and millions of people around the world already affected by climate change – we have no time to lose.

That's why we've compiled a ranking of leading UK pension providers on their approach to tackling climate change. Our analysis looks at the publicly available climate documentation of the UK's 20 largest Defined Contribution workplace pension providers – and assesses their performance on a range of critical measures, from setting emissions targets to fossil fuel financing, from tackling deforestation, to investing in renewable energy.

This comprehensive, consumer analysis provides a clear snapshot of which providers are leading, and which are falling behind. It also highlights areas of action required from across the industry. By ranking providers on these measures, and highlighting where many are falling behind, we hope to raise public awareness of the links between our money and climate change and drive a race to the top amongst pension providers on climate action.

This analysis was developed in partnership with Profundo, a sustainability research provider, from September 2023 to January 2024. Note, for the purposes of this report, the term 'plans' is used to refer to the extent to which each pension provider has effective objectives, policies, and instruments in place to respond to climate change. For full details on the findings of the report, and the methodology followed, please see here.

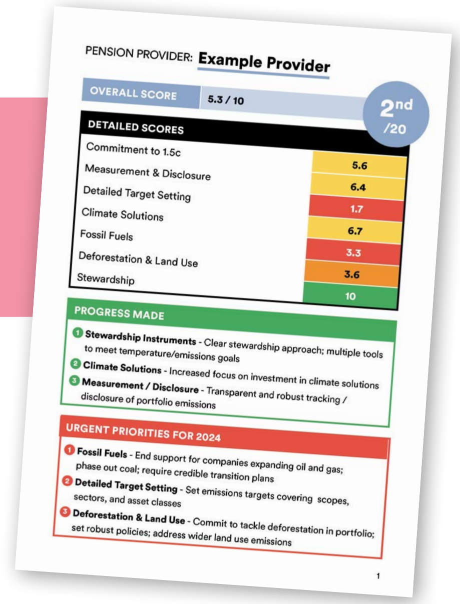
Top 20 Table

ALL SCORES /10	OVERALL RANKING	OVERALL SCORE	CLIMATE PERFORMANCE: Commitment to 1.5c	Measurement & Disclosure	Detailed target setting	Climate Solutions	Fossil Fuels	Deforestation & Land Use	Stewardship Instruments
Aviva	1st	5.4	Adequate	Adequate	Inadequate	Adequate	Inadequate	Inadequate	Good
Legal & General	2nd	5.3	Adequate	Adequate	Poor	Adequate	Inadequate	Inadequate	Good
Nest	3rd	5.1	Inadequate	Adequate	Inadequate	Adequate	Inadequate	Poor	Good
Cushon	= 4th	4.6	Good	Good	Inadequate	Adequate	Poor	Inadequate	Inadequate
Scottish Widows	= 4th	4.6	Adequate	Adequate	Poor	Adequate	Poor	Poor	Good
Fidelity International	6th	4.5	Inadequate	Adequate	Poor	Adequate	Poor	Inadequate	Good
Smart	7th	3.8	Good	Inadequate	Inadequate	Adequate	Poor	Poor	Inadequate
Standard Life	8th	3.7	Adequate	Adequate	Poor	Inadequate	Poor	Poor	Adequate
Aegon	9th	3.3	Adequate	Inadequate	Inadequate	Adequate	Poor	Poor	Inadequate
Royal London	10th	3.1	Inadequate	Adequate	Poor	Inadequate	Poor	Poor	Adequate
Prudential	11th	3.0	Inadequate	Inadequate	Inadequate	Inadequate	Poor	Poor	Adequate
TPT	12th	2.9	Good	Inadequate	Poor	Adequate	Poor	Poor	Inadequate
Now	13th	2.6	Inadequate	Inadequate	Inadequate	Inadequate	Inadequate	Poor	Poor
Aon	= 14th	2.5	Inadequate	Adequate	Poor	Inadequate	Poor	Poor	Inadequate
Lifesight	= 14th	2.5	Inadequate	Inadequate	Poor	Inadequate	Poor	Poor	Adequate
National Pension Trust	= 14th	2.5	Adequate	Adequate	Poor	Inadequate	Poor	Poor	Poor
Mercer	17th	1.6	Inadequate	Inadequate	Poor	Poor	Poor	Poor	Inadequate
Hargreaves Lansdown	18th	1.1	Poor	Inadequate	Poor	Poor	Poor	Poor	Poor
The People's Pension	19th	0.9	Poor	Inadequate	Poor	Poor	Poor	Poor	Poor
SEI	20th	0.5	Poor	Inadequate	Poor	Poor	Poor	Poor	Poor

Key
- 7.5-10 (Good)
- 5.0-7.4 (Adequate)
- 2.5-4.9 (Inadequate)
- 0-2.4 (Poor)

This analysis does not constitute financial advice, and focusses solely on the climate action of each provider

For more detailed information on how each provider scored – and the urgent actions they each must now take – click **here**



PENSION PROVIDER: **Example Provider**

OVERALL SCORE 5.3 / 10 — 2nd /20

DETAILED SCORES	
Commitment to 1.5c	5.6
Measurement & Disclosure	6.4
Detailed Target Setting	1.7
Climate Solutions	6.7
Fossil Fuels	3.3
Deforestation & Land Use	3.6
Stewardship	10

PROGRESS MADE
1. **Stewardship Instruments** - Clear stewardship approach; multiple tools to meet temperature/emissions goals
2. **Climate Solutions** - Increased focus on investment in climate solutions
3. **Measurement / Disclosure** - Transparent and robust tracking / disclosure of portfolio emissions

URGENT PRIORITIES FOR 2024
1. **Fossil Fuels** - End support for companies expanding oil and gas; phase out coal; require credible transition plans
2. **Detailed Target Setting** - Set emissions targets covering scopes, sectors, and asset classes
3. **Deforestation & Land Use** - Commit to tackle deforestation in portfolio; set robust policies; address wider land use emissions

1

Key Findings

This ranking shows that despite positive climate commitments, for the most part providers are sorely lacking in those key areas that contribute the most to the climate emergency, such as fossil fuel expansion and deforestation.

The majority of UK DC providers have real work to do to show they have moved beyond general, high-level commitments and are taking real action to address climate change.

Despite pockets of good practice, these results paint a worrying picture, and threaten both our pensions and the planet.

HEADLINE FINDINGS

- Not one provider is taking a real leadership role on climate action. This despite millions of pension holders across the UK wanting action
- Just three – Aviva, Legal & General and Nest – have 'adequate' climate plans in place
- 13 providers – including household names Standard Life, Royal London and Prudential – have plans deemed 'inadequate', with significant gaps in their climate action
- The four worst performing providers – Mercer, Hargreaves Lansdown, The People's Pension and SEI – have 'poor' plans, scoring on average just 1/10 across all measures
- On both fossil fuel financing and deforestation and land-use –two of the most important areas of climate action, and issues we know the public cares deeply about – all providers were found to be 'inadequate' or 'poor'
- For fossil fuels, 8 out of the 20 providers score a 0/10, and none scored more than 3.3/10. For deforestation and land-use, 7 out of the 20 score a 0 and none scored more than 4.5/10
- The areas providers score highest on include commitments to 1.5 degrees, measurement and disclosure, stewardship instruments, and their approach to investments in climate solutions

FINDINGS BY THEME

Investments in Climate Solutions

- Many providers report that they invest in "climate solutions" and almost half publish a climate solutions investment strategy. However, definitions are fluid or lacking and providers do not often have clear targets and benchmarks for progress. This undermines their action

Deforestation and Land Use

- Just over half have made a form of public commitment to tackle deforestation, but very few have set comprehensive policies. Furthermore, all providers need to measure and set targets for wider Agriculture, Forest, and Other Land Use (AFOLU) emissions

Fossil Fuel Phase-Out

- Most pension providers have limited policies concerning investments in fossil fuel producers. This was surprising given providers' commitments to net zero, and the outsized impact of fossil fuel producers on achieving this goal

Commitment to 1.5 Degrees and Net Zero

- Providers generally commit to net zero, and 1.5 degrees. Though, it must be noted that many of these providers do not explicitly mention 1.5 °C in their policy, but rather make a robust net zero commitment including halving emissions this decade and/or a net zero date well before 2050. Within this, the majority do not say what role carbon offsets play in their climate strategies

Measurement and Disclosure

- Providers tend to use internationally recognised methodologies to measure and disclose the carbon footprints of their portfolios, and disclose by asset class. However, most don't disclose emissions by economic sector

Detailed Target-Setting

- Providers often do not set emission targets for the full value chain of investees, or by economic sector and asset class. Detailed targets could help pension providers to better understand the challenges and opportunities related to their portfolio, and aid them in achieving real-world outcomes

Stewardship

- In general, UK DC pension providers' net zero strategies prioritise stewardship and engagement over divestment and exclusions. Where pension providers choose engagement-oriented stewardship policies, it is important that both their policies, as well as their procedures for engaging with their investment managers (where relevant), are robust. To ensure that engagement and voting policies have teeth, providers also should strengthen their divestment and exclusion policies

Recommendations

At an individual level, we recommend all providers review their personalised scorecards and the detailed analysis provided in the full report, and address the gaps identified. At an industry level, we recommend the following key actions be taken by all providers:

1 Set Ambitious Goals

Commit to a 1.5-degree scenario, with short/mid-term emission reduction targets (i.e. 2025 and 2030) aligned to a no-overshoot trajectory – covering all assets, and only using carbon offsets for hard to abate emissions

2 Develop Detailed Targets

Set detailed emission reduction targets for key sectors (e.g. energy) and asset classes (e.g. equities) in the portfolio, and ensure that targets (and measurement/disclosure) cover emissions throughout the value chain of investee companies

3 Phase Out Fossil Fuels

Phase-out fossil fuel assets, particularly those in coal. Ensure any fossil fuel companies have credible 1.5 degree aligned plans, including no development of new fields as per the International Energy Agency net zero scenario

4 Tackle Deforestation

Publish and act on comprehensive deforestation policies; set targets for, and measure, Agriculture, Forestry, and Other Land Use emissions

5 Invest in Climate Solutions

Scale up investments in climate solutions, and work with peers, regulators, and government to remove any supply/demand barriers pension schemes face in this regard

6 Strengthen Stewardship

Strengthen divestment and exclusion policies, and voting, to ensure that stewardship and engagement approaches are time-bound and have teeth.

By taking these bold actions, we can future proof our pension system, strengthen the economy, capitalise on the opportunities of the green transition, and protect both savers and the planet.

Actions & Next Steps

The UK pensions industry must urgently step up on climate action, otherwise it will continue to finance climate catastrophe while threatening returns and the future well-being of its millions of members across the UK.

This report clearly outlines what must be done, including focussing on targets to reduce emissions, new policies on finance for fossil fuel expansion, stronger individual and collective stewardship strategies, tackling deforestation and unlocking investments in climate solutions.

Leadership on these areas isn't just necessary – it's popular too. From pension holders to civil society to policy makers, individuals and organisations are coming together to recognise the power of our pensions, and demand change.

Make My Money Matter will run a campaign throughout 2024 to encourage action on this agenda, and you can show your support.

- **FOR SAVERS**, you can send your pension provider a personalised message on their climate plans with the click of a button **via our website**
- **FOR EMPLOYEES**, you can also share the ranking with your employer to highlight your provider's performance and encourage action if it doesn't match your company's climate agenda
- **FOR EMPLOYERS**, you can engage directly with your provider on their climate action plans and take steps to move to a greener provider if you're not happy with their progress

See here for the full report including methodology and detailed results provider by provider and visit **makemymoneymatter.co.uk/pensions** for more information.

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