

Climate change 'largest long-term risk' to pension schemes

✓ **Pensions Minister Guy Opperman explains why he is to impose requirements on trustees to ensure they implement effective governance in relation to the financial risks of climate change**

Pensions are about the long term. But if we don't tackle climate change now our long term is going to be severely compromised.

I've been shouting from the rooftops about how, at the very least, I want pension schemes to plan for the financial risks of climate change.

I wrote to 50 of the largest schemes to directly ask how they are addressing those risks and how they plan to implement the environmental, social and governance laws, introduced in October 2019. The responses were mixed.

I make absolutely no apology for my letter or actions on this agenda.

The message is worth repeating, again and again, until it lands.

It's an issue that can't be ignored when it comes to pensions. In reality it matters more than interest rates, exchange rates, company and sector performance and inflation.

It will have a profound impact on economies the world over and presents a very real financial risk to members. Put simply, standing still is not an option.

I made this point in my keynote speech at the recent Pensions and Lifetime Saving Association (PLSA) Investment Conference, where I talked about the amendment I tabled to the Pension Schemes Bill.

I reiterated my intention to impose requirements on trustees to ensure there is effective governance of a pension scheme in relation to the effects of climate change and will be consulting on such requirements this summer.

The regulator will also be required to ensure schemes comply with these regulations. I welcome their commitment to ensuring schemes prioritise climate change and mitigate against its risk and strongly encourage them to act on the recent reports of non-compliance uncovered by UK Sustainable Investment and Finance Association.

We all have a duty to take action and I look forward to their forthcoming strategy that will set out in detail their plans in this crucial area.

I also want to legislate to mandate public disclosure in line with the recommendations of the Taskforce on Climate-related Financial Disclosures. The taskforce says that pension schemes should explain their governance and management of climate change risks, set out the scheme's exposure to carbon-intensive companies and set out how their pensions will be affected by different temperature rises.

I am also interested in schemes reporting their alignment with the Paris Agreement, as a more compelling way that they can measure and report those risks. The objective of the Paris Agreement, to keep global average temperature rises well below 2°C, is the leading scenario against which pension schemes could report their investment's contribution to climate change.

I acknowledge that at present there is no consensus on methodology for doing this but will look to open a conversation with industry on this in the future.

Mine is far from the only voice in this discussion though. Mark Carney,



for example, has called for organisations to provide information to investors, and others, to help to measure and respond to climate change risks. Work and Pensions Secretary, Thérèse Coffey, and I recently met Mark Carney and all agreed that the time for funds to act is now.

I'm acutely aware of the need for such non-government interventions – it can't just be Whitehall setting the agenda. That's why I wanted to get some important voices together to probe this generation-defining issue.

Last year I convened, along with The Pensions Regulator and Sackers, an industry-spanning collective – the Pensions Climate Risk Industry Group – made up of representatives from government, the PLSA and the regulator, among others.

At the PLSA's conference in Edinburgh, we came together to launch a consultation to examine how trustees should align with TCFD to address climate-related financial risks and consider what recommended best practice should look like.

I'm adamant that this collaborative approach will yield the best results. Succeeding in this area will be a joint effort and only by creating these kinds of partnerships between business, industry and government can we tackle the threat of climate change.

➤ **Guy Opperman is the Minister for Pensions and Financial Inclusion**