



# Bulk annuities: A sustainability loophole?

➤ **Church of England Pensions Board deputy chief responsible investment officer, Stephen Barrie, explains how pension funds can help ensure their ethical and sustainability standards are not lost post buyout**

For something that's not well known outside the world of pensions, bulk annuities are surprisingly big business.

Around £50 billion was transferred from pension funds to insurers in 2023, and more than £80 billion is expected in 2024, as trustees with well-funded pension schemes decide they can afford to transfer assets to insurers, de-risk their own balance sheets, and lock in benefits for their members.

Of course, pension trustees take great care to select the best available insurer, and some will take sustainability into account during the process. But the nature of these transactions – which involve at their core a transfer of money and responsibility – means there can be a disconnect between the sustainability approach that pension funds take, and the one insurers take when they invest what were previously pension assets.

Expectations around sustainability among members have been building and building in recent years, and this raises the stakes if there is a disconnect between pension providers and insurers.

Those expectations have been fuelled by better quality reporting (the UK Stewardship Code, mandatory TCFD reports) and public campaigns aimed at mobilising member voices to drive change (e.g., ShareAction, Make My Money Matter, Tumelo). People like to know their pension assets are invested

well, and do good in the world. For us at the Church of England Pensions Board, we know our members care about this. And it's central to the way we report on our investments.

Against the backdrop of increased scrutiny from members, bulk annuities risk coming across as a 'sustainability loophole' – compromising or rendering carefully crafted commitments null and void, potentially undoing years of good practice. Insurers, pension schemes, and their advisers need to take this concern seriously.

To be a little provocative, when you hand over responsibility for your pension members – and the money that goes with it – you want to make sure that money is not suddenly invested in assets that throw your ethical and sustainability standards to the wind. And that means you need to make sure you get it right \*before\* handing over the reins.

To date, the standard approach has been to assess ESG credentials as part of a bulk annuity transaction and for trustees to take this into account in the final decision. And of course, for some pension funds this will be more important than for others.

Choosing the right insurer is an important point of leverage, for sure. But is it enough? Because once the papers are signed, that's it – you're no longer responsible, and no longer involved. What happens under the bonnet once the deal is done?

We know that our members care deeply about the world they retire into, and how their pension payments are funded. And we do, too. That's why, together with a number of other pension schemes, we have been working with insurers to go beyond this transactional approach to sustainability – and to create a strong framework that formalises commitments.

Together with our partners at Railpen and A4S, with 20 founding signatories on all sides of the bulk annuity market, the Bulk Annuity Sustainability Charter\*, launched this January, represents progress in engagement between pension funds, insurers, and advisers. We have aligned behind principles that frame best practice, will improve transparency, and demonstrate willingness to address gaps between the commitments trustees make about assets in their care (e.g. net zero, biodiversity, or human rights commitments), and assets that end up being managed by others in order to pay our members' pensions.

The charter is now live, and pension schemes, insurers and advisers that would like to participate in this initiative should get in touch.

**Stephen Barrie is deputy chief responsible investment officer at the Church of England Pensions Board, and a member of the project team for the Sustainability Principles Charter**

\*[www.accountingforsustainability.org/sustainability-principles-charter.html](http://www.accountingforsustainability.org/sustainability-principles-charter.html)