FairPensions™ The campaign for responsible investment

ShareAction the movement for Responsible Investment

Briefing: Queen's Speech 2013

The future of pensions

This briefing focuses on the government's proposed Pensions Bill. It sets out the key areas which ShareAction (formerly FairPensions) would like to see included in the Bill if it is to herald a move towards an effective pensions system. If you are interested in finding out more about the work ShareAction does please contact **bethan.livesey@shareaction.org** or visit our website at **www.shareaction.org**

Building a sustainable pensions system is vital for the UK's future prosperity:

- The £2trn held in UK pension schemes[1] represents a huge pool of capital which, if invested effectively, could get the economy moving by creating jobs, growth and wealth.
- The long-term nature of pension funds makes them natural leaders in building a more responsible capitalism – but this potential is currently largely unrealised.[2]
- With 6-9 million employees now being auto-enrolled,[3] taking their first steps as investors in the capital markets, the time is right to build a system which serves savers and the real economy.

A system built on trust

- Pensions are highly complex products and the pensions market is not truly competitive; savers often have no real choice of provider (workplace pensions are chosen by the employer), there is no repeat business and poor performance may not be evident until it is too late to act. **Any legislation must account for the imbalance of power in the pensions market by setting clear minimum standards for the auto-enrolment schemes taking on the 6 to 9 million employees now joining the pensions system.**
- Savers need to know what is happening to their money. Research suggests that people are turned off pensions because they do not understand where their money goes and they do not trust the financial system.[4] **Pension providers should be required to communicate openly with scheme members about the decisions taken on their behalf, including in relation to investment and the exercise of ownership rights in major companies.**

A solid governance regime

- Savers in defined contribution pensions bear the risk of the investment decisions made on their behalf. In trust-based schemes, some protection is offered by the trustees' strict fiduciary duties to act in savers' interests. But no such protection exists for the vast majority of savers in 'contract-based' schemes provided by insurance companies. The Work and Pensions Select Committee and others have highlighted this potential 'governance gap'[5].

[1] TheCityUK, Pensions Markets March 2013 (based on PPF and TPR data)
[2] See The Kay Review of UK Equity Markets and Long-Term Decision Making (July 2012): The Kay review Final Report
[3] According to DWP estimates
[4] See for example NAPF Pensions Survey, Spring 2012
[5] See the Work and Pensions Committee's 2013 report 'Improving governance and best practice in workplace pensions': Select Committee's Report on workplace pensions

- ShareAction's 2012 survey of the top 10 contract-based pension providers found that they did not consider it their role to oversee the external managers looking after savers' funds, leaving savers vulnerable. They also lag behind equivalent trust-based schemes on key issues like stewardship of investee companies.[6]
- **Pension schemes used for auto-enrolment should be required to have an un-conflicted, distinct board with a duty to act in savers' interests, as under the Australian system**.[7] **We also support the Select Committee's recommendation for clearer guidance on the role of 'governance committees' set up at employer level to oversee providers.**

Investment in our future

- **Pension funds are ideally placed to provide long-term investment and to lead the transition to a low-carbon economy. But this potential is not being realised**. For example, of the £20bn George Osborne hoped to raise from UK pension funds for infrastructure investment, only £1bn has so far been pledged.[8] And research suggests that most UK pension funds are over-exposed to a 'carbon bubble', the bursting of which could have devastating consequences for savers.[9]
- Part of the problem is that funds do not feel able to take account of savers' interest in the health of the economy and the environment. As the Kay Review noted, trustees' fiduciary duties have too often been interpreted as a requirement to maximise quarterly returns and ignore wider considerations. **We welcome the government's referral of this issue to the Law Commission.[10] We continue to believe that the law should be clarified to confirm that fiduciary investors are not obliged to maximise short-term returns at any cost.**

An effective regulator

- The pensions industry is subject to regulation by the Financial Conduct Authority, the Prudential Regulation Authority and The Pensions Regulator. Such dispersed responsibility leaves the industry vulnerable to a lack of clear oversight. We share the Select Committee's concern about "current regulatory gaps and the potential for further gaps to arise".[11] **The government should streamline regulation by introducing a single regulatory system, based on a principle of "levelling up" standards rather than "levelling down".**
- If the government does not opt for a single regulator, **we support the Select Committee's call for the Financial Conduct Authority to "adopt a pensions-specific and proactive regulatory strategy and set up a well-resourced team dedicated solely to regulating contract-based pension schemes".[12]**

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[6] ShareAction, 2012, 'The Stewardship Lottery'
[7] See ShareAction, 2012, 'Whose Duty? Ensuring effective stewardship in contract-based pensions'
[8] http://www.napf.co.uk/PressCentre/Press_releases/0286_Infrastructure_fund_secures_ten_pension_funds_and_hits_1bn.aspx
[9] Carbon Tracker, 2012, 'Unburnable Carbon: Are the world's financial markets carrying a carbon bubble?' http://www.carbontracker.org/carbonbubble
[10] See http://lawcommission.justice.gov.uk/areas/fiduciary_duties.htm
[11] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmworpen/768/76809.htm, Paragraph 115
[12] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmworpen/768/76803.htm

Responsible capitalism: 2013 and beyond

- Despite the much trumpeted 'Shareholder Spring', our recent study of shareholder voting activity in 2012 found that there was no significant trend towards greater dissent on pay, and little consistency in the companies which did suffer rebellions.[13]
- The introduction of the binding shareholder vote on executive pay is a positive step towards ensuring that companies are held to account in this area. But there is much more to do. **Government should now focus on making institutional shareholders themselves more accountable to those whose money they manage. We urge the government to introduce mandatory voting disclosure so that shareholders can be held to account for their decisions.** Research by PIRC shows that just 21% of asset managers disclose full details of how they vote at company AGMs; our own independent research has found that pension funds are equally non-transparent.[14]

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About ShareAction

ShareAction (formerly FairPensions) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction champions greater transparency and accountability to the millions of people whose long-term savings are managed by institutional investors and other professional agents. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

ShareAction is supported financially by a number of leading charitable foundations and we count amongst our member organisations a growing number of globally recognised NGOs and trade unions. Over 8,000 individuals support our work both by taking action directly to advance responsible investment and through personal donations.

In March 2013, FairPensions changed its name to ShareAction. This change does not reflect any shift in our mission, but has been made in order to better encapsulate the work we do as the UK's leading NGO monitoring and engaging with the investment industry. Whilst pension investments will remain a central focus, the name ShareAction better conveys our interest in the investment industry as a whole.

[13] http://www.shareaction.org/sites/default/files/uploaded_files/MissingLink_Policy.pdf
[14] http://www.shareaction.org/sites/default/files/uploaded_files/ExecPayJune2012-2.pdf