Employers Working Together for a Sustainable Future

GGF Factsheet #1
PENSION SCHEMES

This guide is designed to help employers, and ultimately current and deferred members of pension schemes, to direct their pension funds away from environmentally harmful investments and towards ESG and/or sustainable choices.

OBJECTIVES	• To raise consciousness amongst employers, pension professionals and staff around the impacts/opportunities of investment decisions on pension assets in Guernsey. • To understand what funds are invested in environmentally harmful businesses e.g. fossil fuel companies. • To provide transparency on options to reinvest into environmentally sustainable companies.
AUDIENCE	• Employers who sponsor pension schemes or who direct services to pension providers • Pension trustees • Pension providers who provide services to Guernsey employers • Investment managers of pension assets • Current and deferred members of Guernsey employer provided pension schemes
CRITICAL SUCCESS FACTORS	• Employers understanding of the opportunity set i.e. the ability to redirect capital flows from harmful to environmentally sustainable investment options • Transparency of options for current and deferred members of Guernsey employers provided pension schemes • Self-select environmentally sustainable options in defined contribution schemes • "Lifestyle" options in defined contribution scheme/s which are ESG compliant.
THE BASICS	• Pension assets are typically invested in a range of investment funds many of which are provided by employers. These allow individuals to pool their money to hold shares in a wide range of companies. Some of these investments will be in companies with a damaging impact on the environment. Should we redirect these to sustainable investments?

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Where do I start?

1. Identify if you have a Defined Benefit or Defined Contribution scheme (or both) in your company.
2. Identify if scheme/s have a trustee/s and an investment manager.
3. Find out if there are self-select and "lifestyle" options in the scheme/s.
4. Find out the total value of assets that are managed in the schemes.
5. Check with the trustee or the investment manager if there are "green" or ESG options available to staff.
6. Check if the investment manager has green or ESG options in their fund range.

INTERNAL

EXTERNAL

Communication

1. Start a dialogue as soon as you can!
2. Identify the management forum/mechanism in your company where both leaders and staff can discuss the issue and solutions.
3. Find a champion for the cause.
4. Ask the pension trustees whether they considered ESG issues when preparing their Statement of investment Principles (SIP)
5. Ask your pension consultant or pension provider for options available

How do I measure the opportunity?

1. Identify if you have a Defined Benefit, Defined Contribution scheme or both.
2. If you have a Defined Benefit Scheme (where benefits are prescribed and the employer bears the investment risk) discuss the ESG opportunities and risks with the trustees
3. If you have a Defined Contribution Scheme (where benefits depend upon investment returns and the members take the investment risk) ask the trustees for their assessment of the ESG credentials for the Scheme funds, and in the default option

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CASE STUDY	• A company with 100 employees and a Defined Contribution scheme had no ESG or "Green" pension options. • The employer was made aware of the risks and opportunities to members and to its own business of ESG pension issues • The employer asked the trustees for proposals • The trustees sought specialist advice and learned that: - it would help promote action to focus on one factor initially - climate change was the dominant ESG risk for pension fund investment - their scheme was not large enough to create its own pooled fund, so they would need to review the options in the market • The trustees commissioned a review, assessing pure investment risk/return as well as compliance with a climate change mandate • Three funds were selected and proposed to the employer. The trustees also proposed one fund was integrated into the default strategy. • The employer agreed. Member briefings were carried out and produced a very positive response. • The trustees made all three funds available under self-select and agreed with the employer to keep the options under review.
ISSUES & LESSONS LEARNED	• Pension investment => Pension funds collectively represent a major asset owner: what they do matters, and matters to employees • ESG issues => Ignoring ESG issues may materially compromise investment performance, and sponsor a future with existential risk • There are many ESG issues => Focus is important to make a start; refinement can follow later • ESG investment => There are risks associated with ESG investment, and the issues are complex, so professional advice was critical

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Example of positive goals/outcomes

1. Self-select sustainable options now available in the Defined Contribution pension scheme
2. All Lifestyle options in the Defined Contribution scheme are fully ESG compliant
3. Employers have reduced the carbon intensity of their Defined Benefit schemes and are on track for net zero carbon by 2050.