

# Addressing climate change: An action plan for pension scheme sponsors

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Helping corporate sponsors

*The financial consequences of the climate crisis are already being felt and, if unchecked, its future impact will dwarf anything experienced to date. Action on climate change can no longer be delayed.*

As major long-term investors, pension schemes and their financial positions are at risk. If left unchecked, companies with defined benefit schemes are understandably going to be concerned about the impact this could have on cash commitments trustees may be seeking in future. For defined contribution schemes, members' investments and future financial wellbeing are at risk. For both DB and DC, companies may also be concerned about associated reputational risks. And some companies will also be keen to align aspects of their own sustainability / CSR strategies with those of the pension scheme, especially given the ever increasing disclosure requirements associated with both.

The scale and complexity of the issue mean that a tick-box exercise will not suffice. DWP is consulting on proposals to make action on climate change mandatory for schemes with assets of £1bn or more. This is expected to drive improved market practices and point the way for smaller schemes.

Here, we pull together some key steps for companies to address the pension risks and opportunities from climate change. For help tailoring this action plan for your company, please contact your usual LCP adviser.

Topic	Action	Questions to consider
<b>Training</b> 	Ensure you and your CSR team have sufficient knowledge of climate topics in the context of the pension scheme arrangements	<ul style="list-style-type: none"> <li>Are you familiar with concepts such as physical impacts, transition impacts, stranded assets and carbon footprinting?</li> <li>Is your pensions team joined up with company experts, such as your CSR team, to tackle the relevance of these issues for pensions?</li> <li>Do you know what is expected of your scheme trustees regarding climate change, and how these requirements are likely to develop?</li> </ul>
<b>Scenario analysis</b> 	Investigate the financial impacts of different climate pathways	<ul style="list-style-type: none"> <li>What might be the impact of (say) a 2°C and a 4°C climate scenario on your scheme's investments and funding position?</li> <li>How does uncertainty about the magnitude and timing of climate impacts (including on insurer pricing) affect the scheme's funding strategy and journey plan?</li> <li>What are the implications of uncertainty about the magnitude and timing of climate impacts for the de-risking phase of your defined contribution default strategies?</li> </ul>
<b>Employer update</b> 	Help your trustees to understand the impact of climate change on your business and mitigating actions being taken	<ul style="list-style-type: none"> <li>How significant is climate change for the business, and over what timescales?</li> <li>Are the scheme trustees aware of actions being taken to reduce the company's climate risks and pursue opportunities?</li> <li>What is your stance on communicating with staff regarding your climate approach and how might this affect scheme member expectations?</li> </ul>
<b>Trustee dialogue</b> 	Form a specialist (joint) working group to consider climate change in the context of the scheme	<ul style="list-style-type: none"> <li>Are there any reputational risks arising, for example, from inconsistencies between your climate approach and that of the scheme trustees?</li> <li>Will the trustees be required to take action on climate change and, whether they are or not, is there an advantage to being voluntary early movers?</li> <li>Is your CSR team included in discussions that shape the future of the scheme's strategy on climate risks?</li> </ul>

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<b>Investment beliefs</b> 	Include climate change explicitly in a set of mutually agreed investment beliefs	<ul style="list-style-type: none"> <li>How do you expect physical and transition impacts to affect the economy and financial markets?</li> <li>Are these investment beliefs consistent with your company's CSR policies and the beliefs of scheme trustees in your group?</li> </ul>
<b>Climate-aware investments</b> 	Consider low carbon alternatives	<ul style="list-style-type: none"> <li>Should you ask your trustees to switch any of the funds into low carbon alternatives, eg should they track a low carbon index?</li> <li>Are there opportunities to invest in climate solutions, eg renewable energy, energy efficiency, sustainable transport?</li> </ul>
<b>Metrics and targets</b> 	Monitor and improve your investment portfolios' climate exposure	<ul style="list-style-type: none"> <li>For your scheme's portfolios, what are your exposures to greenhouse gas emissions, fossil fuel reserves and climate solutions?</li> <li>How do these exposures benchmark against peers?</li> <li>What targets could and should the trustees set to improve these exposures over time?</li> </ul>
<b>Risk register</b> 	Document climate risks and develop mitigating actions	<ul style="list-style-type: none"> <li>Are climate risks relating to the pension arrangements included within the relevant sections of your risk register?</li> <li>How might these risks affect your scheme's investments, funding position, outcomes for members and your reputation?</li> <li>Are you and the trustees taking sufficient actions to mitigate the risks?</li> </ul>
<b>Disclosure</b> 	Reporting to scheme members and others on progress	<ul style="list-style-type: none"> <li>Will the scheme trustees' public disclosures about their climate approach (eg in Statement of Investment Principles and Implementation Statement) stand up to scrutiny?</li> <li>Should information about climate change be included in member-friendly communications?</li> <li>Will any detailed disclosures produced on the scheme's climate approach be consistent with your climate approach?</li> </ul>

## Want to find out more?

If you would like further information, please visit our [Corporate Consulting](#) team or contact the partner who normally advises you.



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