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COMMENT

Why organisations should think radically about green pensions

By Ben Pollard | September 16, 2022

If you have driven down the M32 into the heart of Bristol recently, you will have noticed an enormous mural the length of two street blocks defining corporate greenwashing as claiming to do good for the environment, while knowingly damaging it.

Bristol has a population that has earned itself a reputation for being “woke”, or at least awake to the urgent need to tackle climate change more than most cities. Tempers have flared recently over the city council’s pension scheme.

While other cities have chosen to completely divest their fossil fuel holdings, and despite Bristol’s reputation for leading the national conversation on sustainability, some in the Avon Pension Scheme are arguing to stick with the oil, coal and gas investments that have so reliably provided dividends for pension funds over the years.

The pensions industry has long been responsible for investing in, and financing, businesses and industries that have caused catastrophic damage to the climate. On average, a pension pot in the UK finances 23 tonnes of CO_2e emissions every year.

We need greater standardisation across the industry to ensure measurement is accurate and people can confidently understand what is on offer

To put that into context, the average Brit, in their day-to-day life, produces between six and 10 tonnes of CO_2e a year.

According to the Make My Money Matter campaign, having a green pension is more effective than giving up flying, going vegetarian and using renewable energy all together. That is pretty astounding.

The industry is opaque

It is no wonder that Bristol’s Green party councillors are keen to make the transition, but they are an enlightened minority. The reality is that of the people that are buying electric vehicles, giving up meat and cutting down on long-haul flights for the sake of the planet, very few really have a good grasp of in what their pensions are invested.

For too long the industry has been opaque about where pension funds are invested. As an ordinary person with a pension, with limited investment knowledge, it is really hard to work out whether your money is doing good or bad.

Even those that go as far as asking their pension provider where their money is invested find that without serious digging (and financial knowledge), it is impossible to know which companies are benefiting. They might go as far as stating the fund objective, but there is no clear indication of what the environmental impact might be.

When it comes to energy companies, working out what constitutes a positive “green investment” is a hard line to tread — innovative sustainable energy and hydrocarbons are all mixed up in the same stocks. Does divesting fossil fuels really help the transition to the green economy?

The biggest investor and supplier of green hydrogen in Europe is Shell, and Lightsource BP is one of the biggest investors in solar — part-owned, of course, by BP itself.

Trying to ensure your investments are ethical by figuring out what is wrong or right and eliminating “sin stocks” from a portfolio is not straightforward.

Greenwashing remains a problem

But there are ways that investment teams can create and follow more sustainable investment strategies, particularly by diversifying and exploring different forms of investment — whether that is in wind farms, solar projects or green hydrogen projects.

Investing in these areas also reduces risk with greater diversification, ensuring peoples’ money is safeguarded against lower returns from “brown” (carbon emitting) investments as the global economy transitions to net zero and as greener companies are generally expected to perform better in the long term.

Recent interest in sustainable investment has increased significantly, as has the number of funds marketing themselves as “green” or “ethical”. But the greenwash is real. Too many funds are marketing themselves as green or ethical without providing the level of transparency to investors to back-up their claims.

It is impossible to compare options without stringent industry criteria defining how environmental impact is measured. We need greater standardisation across the industry to ensure measurement is accurate and people can confidently understand what is on offer.

It is also important to consider the engagement piece of the puzzle. As the cost of living crisis pushes up prices for us all, many people will require extra encouragement to maintain their pension contributions.

But knowing that your money is doing good is a great motivator. And in an environment where the fight for workplace talent is fierce, any employer with strong values that demonstrates its integrity on climate matters — from its recycling policy to its pensions scheme — will be more attractive to candidates looking to be part of a positive movement without sacrificing reward.

If the pensions industry can move forward and agree that pensions can be a force for good in the world, while delivering returns, together we can achieve great things for our planet.

Ben Pollard is chief executive and founder of Cushon

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