

Current issues in Labour's economic policy

3. Pensions, asset managers and net zero

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‘Our system of state, private, and workplace pensions provide the basis for **security in retirement**. Labour will retain the **triple lock** for the state pension. We will also adopt **reforms to workplace pensions to deliver better outcomes for UK savers and pensioners**. Our pensions **review** will consider what further steps are needed to improve security in retirement, as well as to **increase productive investment in the UK economy.**’

- Manifesto p. 79

‘Labour will make the UK the **green finance capital of the world**, mandating UK-regulated financial institutions – including banks, **asset managers, pension funds, and insurers** – and FTSE 100 companies to develop and implement credible **transition plans that align with the 1.5°C goal of the Paris Agreement.**’

- Manifesto p. 57

‘The **size of Canadian pension schemes** means they can **invest far more in productive assets** like vital **infrastructure** than ours do. I want British schemes to learn lessons from the Canadian model and fire up the UK economy, which would deliver better returns for savers and **unlock billions of pounds of investment.**’

- Rachel Reeves (7 August 2024)

(1) Pledges – in summary

- (i) **Improve pensions for security in retirement**, focusing on workplace pensions
- (ii) A **credible 1.5 degree Paris aligned plan** for all pensions (+ life insurers) and asset managers
- (iii) **Raise long-term, productive investment** by learning from abroad, especially Canada

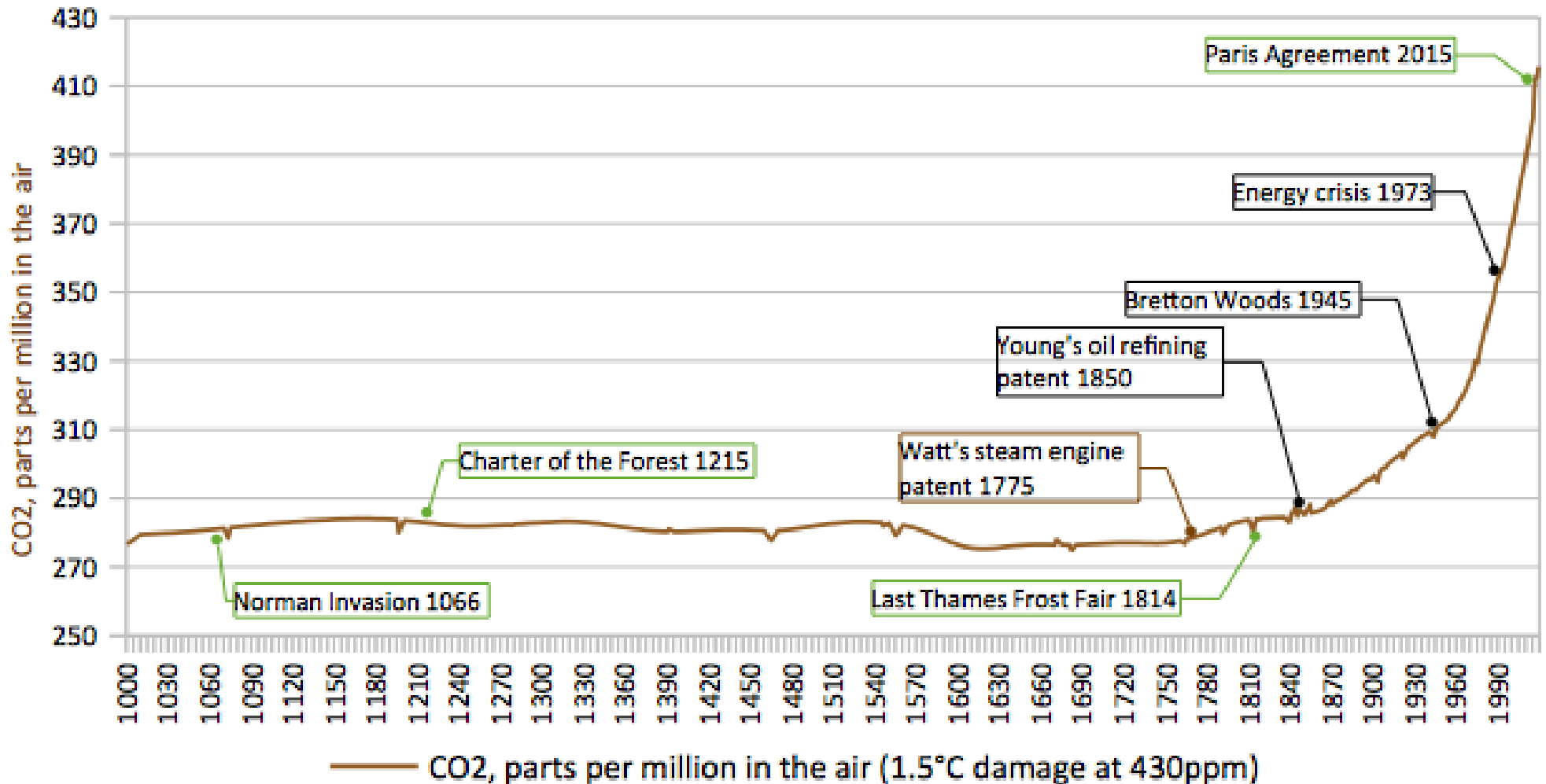
(2) Human rights (3) Legal background (4) International rank, data (5) Reform models (6) Benefits, costs

(2) Human rights

- **‘Everyone, as a member of society, has the right to social security’**. Universal Declaration of Human Rights art 22
- **‘Everyone has the right to life...’** Universal Declaration art 3, also European Convention on Human Rights article 2, etc
- The right to life in ECHR art 2 (and art 8) places a positive **duty on member states to reduce emissions** in line with the UN Framework Convention on Climate Change. This includes the UK. So **‘the State’s primary duty is to adopt, and to effectively apply** in practice, regulations and measures capable of **mitigating the existing and potentially irreversible, future effects of climate change.’** *Klimaseniorinnen v Switzerland* [2024] ECHR 304, [545]

Carbon emissions 1000 AD to 2020

Sources: US EPA, Atmospheric Concentrations of Greenhouse Gases, and www.co2.earth/daily-co2



0.028% CO₂ in air in 1775 -> 0.0424% (or 424ppm) in 2024

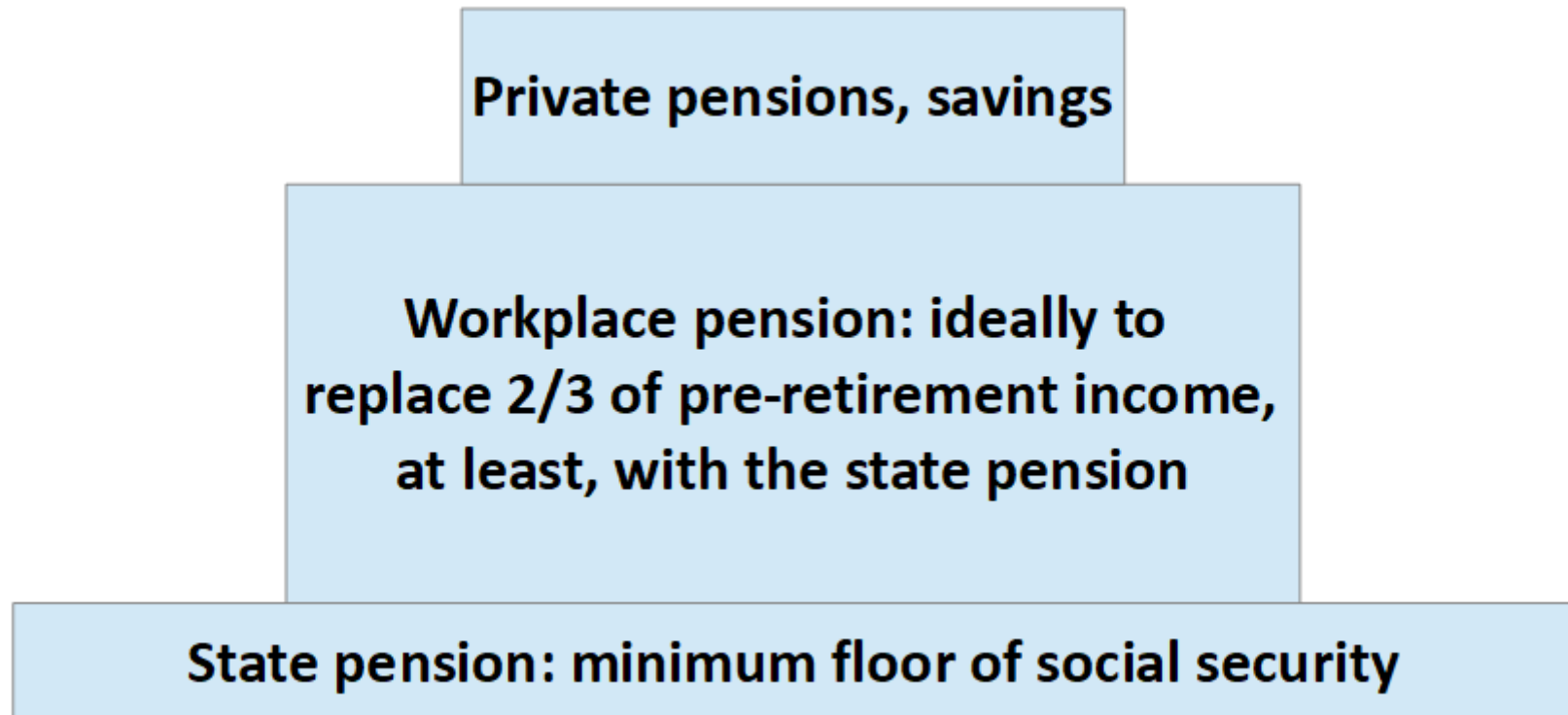
(3) Legal background

- (a) UK state, workplace + private pensions
 - (b) Workplace pension structure
 - (c) Public service pension system
 - (d) Asset managers' role and control

(a) UK state, workplace + private pensions

- National Insurance Contributions pay for the state pension (as well as unemployment + insolvency, etc) but is not hypothecated, separate from general tax
- **Employer pays 13.8%** of salary in NICs, **employees pay 8%**, and **self-employed pay 6%** (+ no em'r NICs), but only **2% of salary above £50,270** (i.e. not progressive like income tax)
- State pension = **£11,542 p.a.**, £221.20 a week from April 2024, with 35 years paying in (30 yrs to 2016).
- This increases yearly by the highest of **CPI inflation, average earnings growth, or 2.5%** (the 'triple lock')
- The state pension is a **minimum floor, not income linked**: so need workplace/private pensions to replace income

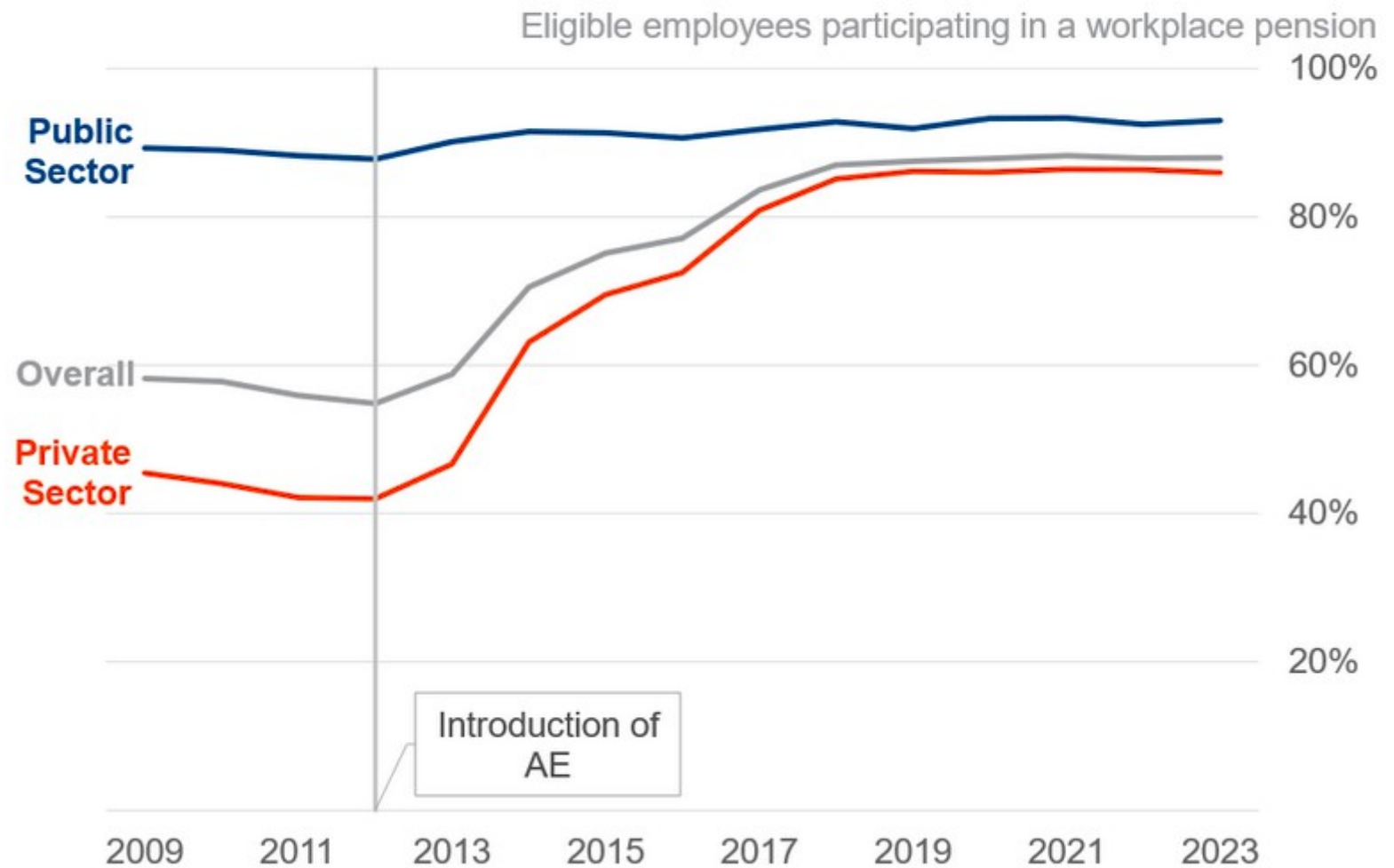
Three pillar – or layers – of pensions



(b) Workplace pension structure

- **UK pension assets = £2.96 trillion**, yet **funds are small and scattered** as Trade Union LRC Act 1992 Sch A1 only enables union 'recognition' for workplaces – not sectors. There's no duty to bargain, or right of unions to take cross-sector action to get a collective agreement + pension, until fair pay agreements come
- So, few sector, or multi-employer plans – if a pension at all.
- **88% of 'eligible' GB employees have workplace pensions (up from 55% in 2012, 42% in private sector)** but only since workers age 16-64 were automatically enrolled. Delayed by 5-10 years: Pensions Act 2008 ss 1-3
- **Just 3% minimum contributions by employers**, 8% total (rest from workers) but no cap: Pensions Act 2008 s 20.
- Many pensions fail to guarantee income in retirement (DB) – they are lump sums that can run out if people live too long (DC).
- **Small funds lack bargaining power and pay more fees to asset managers.**

Figure 1: Eligible Employee pension participation rate to 2023



Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2023

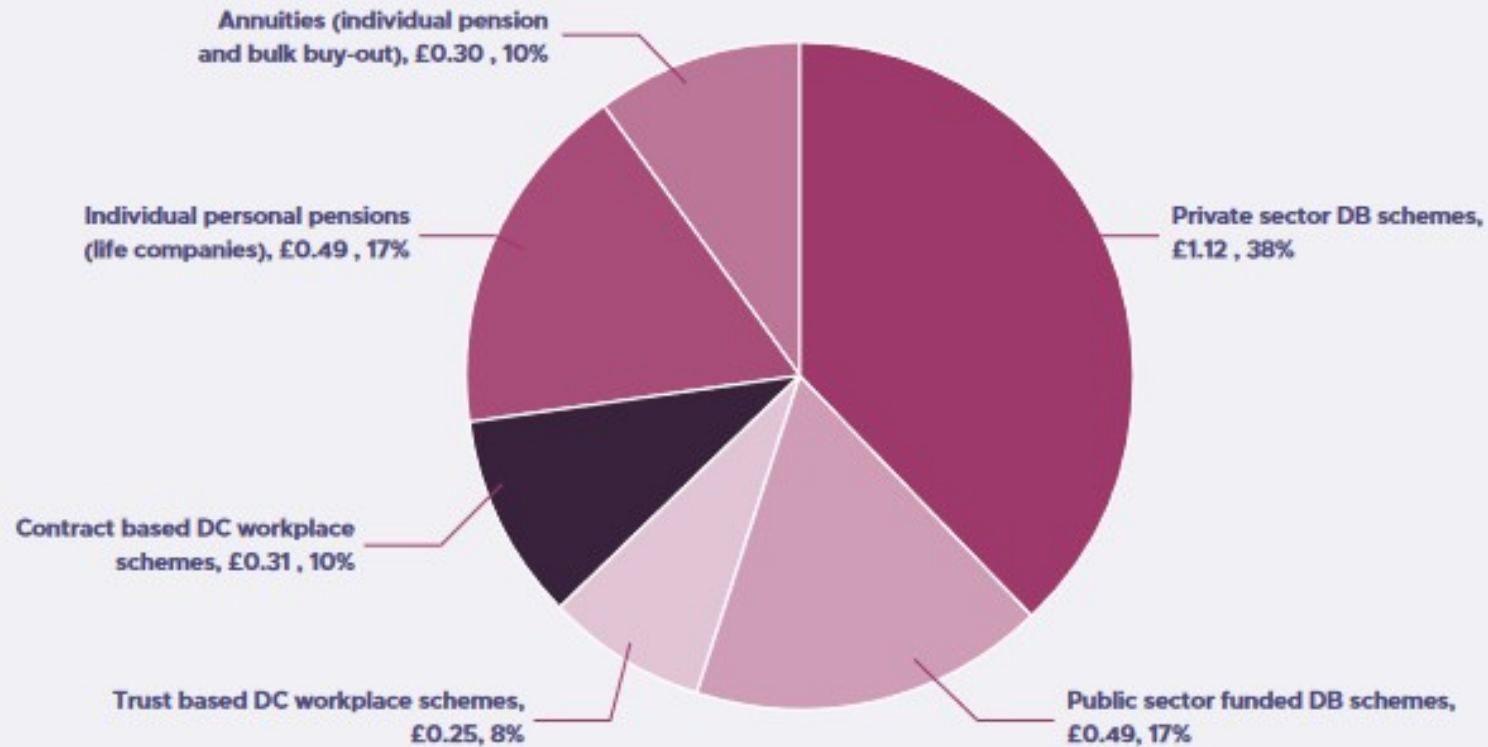


£3 trillion of UK pension assets.

The PPI estimates the total size of UK pension assets in late 2023 at approximately £2.96 trillion. This estimate is derived from a number of sources with the breakdown shown in the chart below.

Figure 8: £3 trillion of UK pension assets (PPI estimates, FSPS, Purple book, ABI) £ trillion.

£3 trillion of UK pension assets



Alternative ways of looking at the data are shown in the table below.

Workplace pension governance

- Pension funds are mostly **corporations, or trusts**, with a board of directors or trustees, chosen by employers, or workers/unions: ‘member nominated’. Collectively bargained funds aim for half or majority-elected boards.
- **‘Contract’ or insurance pensions** give control over money to a life insurance company or fund firm, providing annuity in retirement
- **Member nominated trustees must be at least ⅓ of the board**, but **multi-employer plans are exempt** (e.g. USS), so is NEST, and the **law is not enforced on contract pensions**: Pensions Act 2004 ss 241-2
- **Minister can raise the threshold to ½** of member-nominated trustees or directors but have refused to do so yet: Pensions Act 2004 s 243
- **Hard to enforce pension directors’ duties**, with no codified rules, and shifty, uncertain common law: *McGaughey and Davies v USS* [2023] EWCA Civ 873
- Association of Member Nominated Trustees, whose members represent £1 trillion AUM, organises worker/pensioner voice, does training sessions, and has an ESG voting policy: the Red Line Voting policy (2021)

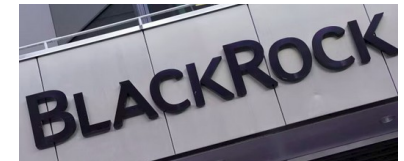
(c) Public sector pensions

- NEST, 13m members, third of UK workers, 1 million employers, **£43bn** AUM in Sept 2024 (projected £100bn in 2040?). **NEST board has no worker reps: directors choose successors:** PA 2008 Sch 1, para 1
- NEST assets will be much more if contributions rise to an adequate level, e.g. A rise from 8% to 12% = + £10 bn pa: Phoenix, WPI Economics (2024)
- LGPS has 86 funds, 6.5m members, **£425 billion** AUM in July 2024: Public Service Pensions Act 2013 s 5(4)(c) board with equal employer/member reps, but it merely 'assists' a scheme manager
- Returns will be much higher if funds are merged: fund manager fees can be lower/zero



(d) Asset managers' role and control

- Asset managers charge fees to pension funds, more to smaller ones, for managing investments
- **Asset managers take control of shareholder voting rights**, and **refuse to follow instructions for ESG voting policies from pension funds**: Simon Howard, *The report of the Taskforce on Pension Scheme Voting Implementation* (Sept 2021)
- Asset managers almost always vote with company managements, and against environmental, social & governance preferences of pensions, e.g. AMNT, *Red Line Voting* (2021)
- **No duty on asset managers in statute, or enforced in courts, to follow pension fund voting policies**





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How BlackRock Abandoned Social And Environmental Engagement

Michael Posner

Senior Contributor

I write about human rights and leadership in a global context.



Sep 4, 2024, 05

Updated Sep 12, 2024, 11:27am EDT

BlackRock throws support behind effort to move pensions beyond ESG

The \$10.5tn money manager emphasises investor choice after a backlash to its advocacy for sustainable investing



Assets in BlackRock's largest ESG fund have halved since late 2021 © Reuters

Lee Harris in London and Brooke Masters in New York JUNE 29 2024 13

BlackRock's support for ESG measures falls to new low

Asset manager supported just 20 of 493 environmental and social proposals put forward by shareholders at annual meetings



Joud Abdel Majeid, BlackRock's global head of investment stewardship © FTMontage/Carlo Allegri/Reuters

Brooke Masters in New York and Kenza Bryan in London AUGUST 21 2024

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BlackRock will not be the 'environmental police' in ethical investing U-turn

Larry Fink says it's wrong to ask the private sector to ensure companies they invest in are doing their part to combat climate change

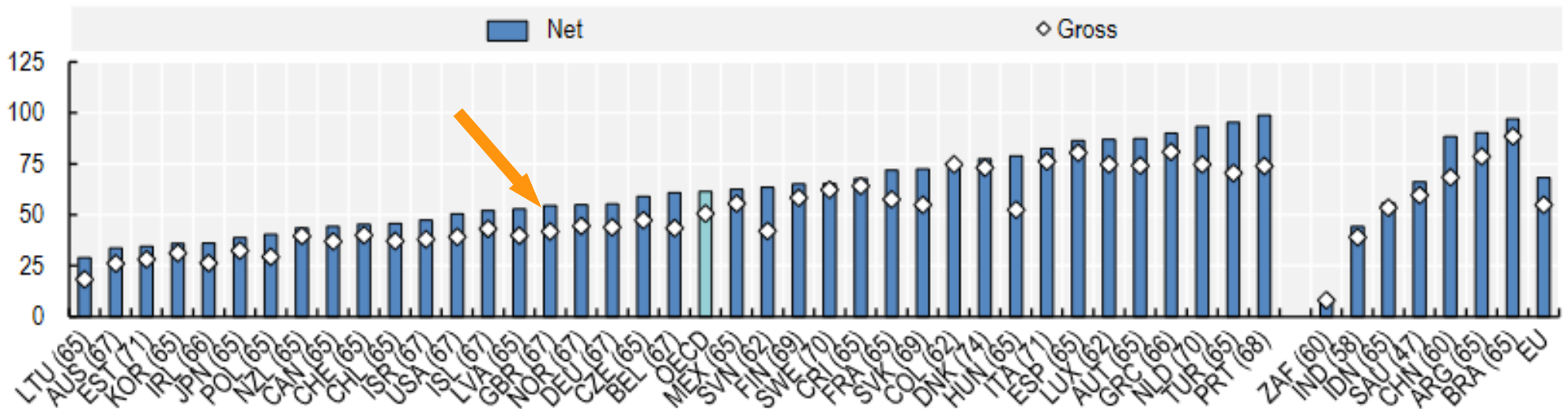
Simon Foy

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06 June 2022 4:58pm BST




(4) UK has poor pensions compared to OECD

Figure 4.4. Net and gross pension replacement rates: Average earners, in percentage



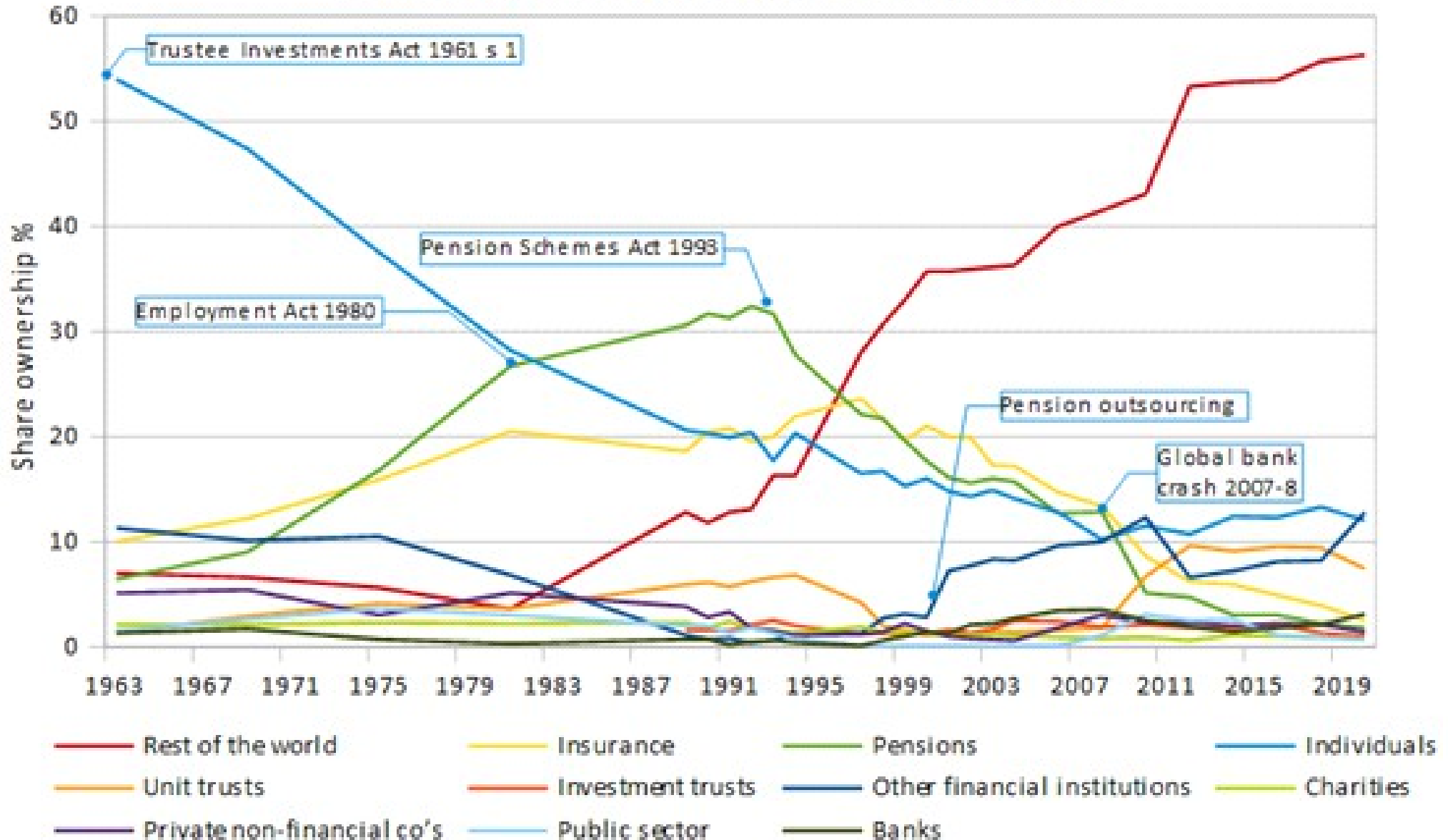
Source: OECD pension models.

StatLink  <https://stat.link/v8jpag>

‘Replacement rate’ for average person is **just 54.4%** of salary: OECD, *Pensions at a glance* (2023) 157, Fig 4.4

UK quoted share ownership 1963 to 2020

Source: ONS, Ownership of UK quoted shares (2022) Table 12



Zero UK pension funds among top 40 of world's largest: Global top 300 Pension Funds (2024) 45-52.

TAI | P&I 300 ranking

(in US\$ million)

Rank	Fund	Market	Total Assets	Rank	Fund	Market	Total Assets
1.	Government Pension Investment	Japan	\$1,593,141	21.	Employees' Provident	India	\$176,246 ²
2.	Government Pension Fund	Norway	\$1,584,524	22.	Australian Retirement Trust	Australia	\$173,844 ³
3.	National Pension	South Korea	\$801,864	23.	Washington State Board	U.S.	\$167,033
4.	Federal Retirement Thrift	U.S.	\$782,835	24.	Public Institute for Social Security	Kuwait	\$144,911 ²
5.	ABP	Netherlands	\$652,376	25.	Future Fund	Australia	\$144,312
6.	Canada Pension	Canada	\$477,676 ¹	26.	Public Service Pension Plan	Canada	\$134,566 ⁴
7.	California Public Employees	U.S.	\$452,453	27.	Wisconsin Investment Board	U.S.	\$130,932
8.	Central Provident Fund	Singapore	\$432,509	28.	New York State Teachers	U.S.	\$130,783
9.	National Social Security	China	\$364,351 ²	29.	Alecta	Sweden	\$126,614
10.	California State Teachers	U.S.	\$309,931	30.	North Carolina	U.S.	\$126,472
11.	PFZW	Netherlands	\$262,261	31.	GEPF	South Africa	\$124,573 ⁴
12.	New York City Retirement	U.S.	\$247,999	32.	Bayerische Versorgungskammer	Germany	\$123,526 ⁵
13.	Employees Provident Fund	Malaysia	\$247,268	33.	Boeing	U.S.	\$119,226 ²
14.	New York State Common	U.S.	\$246,307	34.	California University	U.S.	\$118,284
15.	Local Government Officials	Japan	\$226,803	35.	ATP	Denmark	\$112,611
16.	AustralianSuper	Australia	\$204,631 ³	36.	Virginia Retirement	U.S.	\$110,665
17.	Florida State Board	U.S.	\$194,659	37.	Aware Super	Australia	\$109,927 ³
18.	Ontario Teachers	Canada	\$186,897	38.	Michigan Retirement	U.S.	\$109,513
19.	Texas Teachers	U.S.	\$181,656	39.	PFA Pension	Denmark	\$109,138
20.	Labor Pension Fund	Taiwan	\$176,267	40.	Ohio Public Employees	U.S.	\$107,468

... only one UK fund – USS – in top 100.
 Canada has 8. Australia has 7. **Netherlands has 5.**

TAI | P&I 300 ranking (in US\$ million)

Rank	Fund	Market	Total Assets	Rank	Fund	Market	Total Assets
41.	Employees' Pension Fund	India	\$102,968 ²	61.	Lockheed Martin	U.S.	\$76,842 ²
42.	National Federation of Mutual Aid	Japan	\$102,962	62.	IBM	U.S.	\$76,670
43.	Oregon Public Employees	U.S.	\$98,280	63.	General Electric	U.S.	\$74,410 ²
44.	Ontario Municipal Employees	Canada	\$97,267	64.	Tennessee Consolidated	U.S.	\$74,373
45.	Pension Fund Association	Japan	\$96,244 ¹	65.	Danica Pension Group	Denmark	\$73,632
46.	Universities Superannuation	U.K.	\$95,998 ⁴	66.	General Motors	U.S.	\$73,439 ²
47.	Massachusetts PRIM	U.S.	\$95,241	67.	Los Angeles County Empl.	U.S.	\$72,167
48.	Minnesota State Board	U.S.	\$95,177	68.	United Parcel Service	U.S.	\$71,931
49.	AP Fonden 7	Sweden	\$94,755	69.	Bouwnijverheid	Netherlands	\$71,872
50.	New Jersey Div. of Invest.	U.S.	\$94,039	70.	KLP	Norway	\$71,297
51.	Kaiser Permanente	U.S.	\$91,551	71.	National Public Service	Japan	\$71,291
52.	Metaal/tech. Bedrijven	Netherlands	\$91,276	72.	Keva	Finland	\$69,723
53.	Georgia Teachers	U.S.	\$91,088	73.	Pennsylvania School Empl.	U.S.	\$69,072
54.	AT&T	U.S.	\$90,497 ²	74.	Afore XXI Banorte	Mexico	\$68,826
55.	RTX	U.S.	\$89,511	75.	Illinois Teachers	U.S.	\$65,637
56.	Ohio State Teachers	U.S.	\$87,456	76.	Bank of America	U.S.	\$65,521
57.	Healthcare of Ontario	Canada	\$85,051	77.	Quebec Government & Public	Canada	\$65,391
58.	UniSuper	Australia	\$84,915 ³	78.	Varma	Finland	\$65,216
59.	Quebec Pension	Canada	\$84,338	79.	Ilmarinen	Finland	\$65,046
60.	United Nations Joint Staff	U.S.	\$81,546	80.	HOSTPLUS	Australia	\$64,078 ³

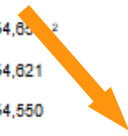


... two in top 120...

TAI | P&I 300 ranking

(in US\$ million)

Rank	Fund	Market	Total Assets	Rank	Fund	Market	Total Assets
81.	Maryland State Retirement	U.S.	\$83,289	101.	Utah Retirement Systems	U.S.	\$51,700
82.	Colorado Employees	U.S.	\$83,017	102.	HESTA	Australia	\$51,638 ³
83.	Afore Profuturo GNP	Mexico	\$82,935	103.	Rest Super	Australia	\$51,293 ³
84.	Northrop Grumman	U.S.	\$82,427	104.	Arizona State Retirement	U.S.	\$50,678
85.	PME	Netherlands	\$59,753	105.	Connecticut Retirement	U.S.	\$49,982
86.	B.C. Municipal	Canada	\$58,156	106.	AP Fonden 3	Sweden	\$49,877
87.	Cbus	Australia	\$56,984 ³	107.	FedEx	U.S.	\$49,307 ²
88.	Nevada Public Employees	U.S.	\$56,247	108.	Illinois Municipal	U.S.	\$48,922
89.	Previ	Brazil	\$56,139	109.	AP Fonden 4	Sweden	\$48,792
90.	Social Insurance Funds	Vietnam	\$56,057 ²	110.	South Carolina Public Empl.	U.S.	\$48,683
91.	AMF Pension	Sweden	\$56,034	111.	State Farm	U.S.	\$48,595 ²
92.	Afore Citibanamex	Mexico	\$55,293	112.	Pensionskasse des Bundes	Switzerland	\$48,162
93.	J.P. Morgan Chase	U.S.	\$54,874 ²	113.	Porvenir	Colombia	\$48,118
94.	Ford Motor	U.S.	\$54,650 ²	114.	ERAFF	France	\$47,799
95.	Afore Sura	Mexico	\$54,621	115.	Alberta Local Authorities	Canada	\$47,719
96.	Wells Fargo	U.S.	\$54,550	116.	PensionDanmark	Denmark	\$47,646
97.	UBS	Switzerland	\$54,404	117.	Natwest Group	U.K.	\$47,246 ⁶
98.	Missouri Schools & Educ.	U.S.	\$53,527	118.	BVK des Kantons Zurich	Switzerland	\$46,912
99.	Teamsters, Western Conf.	U.S.	\$53,428	119.	Organization for Workers	Japan	\$46,322
100.	AFP Habitat	Chile	\$52,219	120.	Verizon	U.S.	\$45,773



... and then 6 more between 123-160.

TAI | P&I 300 ranking (in US\$ million)

Rank	Fund	Market	Total Assets	Rank	Fund	Market	Total Assets
121.	Indiana Public Retirement	U.S.	\$45,743	141.	Walmart	U.S.	\$39,598 ²
122.	Johnson & Johnson	U.S.	\$45,214 ²	142.	Vervoer	Netherlands	\$39,517
123.	BT Group	U.K.	\$45,098 ¹	143.	VBL	Germany	\$39,442 ²
124.	AP Fonden 1	Sweden	\$44,748	144.	Korean Teachers Credit Union	South Korea	\$39,401
125.	Alabama Retirement	U.S.	\$44,110	145.	Alaska Retirement	U.S.	\$39,225
126.	Texas County & District	U.S.	\$43,779	146.	Social Security Funds for OASI	Switzerland	\$38,986
127.	Electricity Supply Pension	U.K.	\$43,434 ⁴	147.	Pennsylvania Employees	U.S.	\$38,805
128.	Retirement Fund-KWAP	Malaysia	\$43,142 ²	148.	Greater Manchester	U.K.	\$38,665
129.	Lloyds Banking Group	U.K.	\$42,946 ⁶	149.	Mivathim	Israel	\$38,449
130.	Microsoft	U.S.	\$42,572 ²	150.	San Francisco City & County	U.S.	\$38,097
131.	Teamsters, Central States	U.S.	\$42,147 ²	151.	Government Pension	Thailand	\$37,533
132.	AP Fonden 2	Sweden	\$41,824	152.	Federal Reserve Employees	U.S.	\$37,484 ²
133.	Delta Air Lines	U.S.	\$41,702	153.	BVV	Germany	\$37,244
134.	Sampension	Denmark	\$41,721	154.	Texas Municipal Retirement	U.S.	\$37,216
135.	Railways Pensions	U.K.	\$41,421 ²	155.	Public School Employees	Japan	\$37,164
136.	CSC	Australia	\$41,300 ³	156.	Strathclyde Pension Fund	U.K.	\$37,111 ⁴
137.	Iowa Public Employees	U.S.	\$41,129	157.	AFP Capital	Chile	\$36,780
138.	AFP Provida	Chile	\$40,879	158.	National Pension Association	Japan	\$36,578 ²
139.	New Zealand Superannuation	New Zealand	\$40,274 ³	159.	Proteccion	Colombia	\$36,460
140.	Texas Employees	U.S.	\$40,039	160.	Grafische Bedrijven	Netherlands	\$35,325

Canada, US, Australian, Dutch pensions

- Canada's Maple 8:
 - Canada Pension Plan. 22m members. C\$646bn in 2024.
 - Cdp Quebec \$434bn in 2023
 - Public Sector Pension Investment Board, \$264bn in 2024.
 - BC Pension Corp, £143.5bn
 - Ontario Teachers' Pension Plan, £141.9bn
 - AIMCo (Alberta) £92bn
 - Ontario Municipal E's Retirement System, £73.7bn
 - Healthcare of Ontario PP, £64.5bn
- CalPERS \$502.9b (£384b). CalSTRS \$344.9b. Fed Thrift \$782b
- SP Chan, 'Aussies do it better': why Jeremy Hunt is casting an envious eye Down Under' (2 December 2023) [Telegraph](#)
- Netherlands, ABP €474bn

(5) Models and options to meet goals

- Require employers negotiate multi-employer pensions via **sector-wide** fair pay agreements: Employment Rights Bill ss 29-36, for all sectors
- **Merge** the Local Government Pension Scheme by law, and ensure investment is in-house (Canada)
- **Raise member-nominated trustees to ½**, remove scheme loopholes for multi-employer schemes such as USS, NEST, or contract pensions: PA 2004 s 243 + Australia's (\$3.5tr) Superannuation Industry (Supervision) Act 1993 s 89, pre-Abbott

... and to improve voting + Paris fulfilment

- Right to **training** for all pension trustees, and build in-house investment capacity, following the work of the AMNT
- Duty on pension funds to write **ESG voting policy based on members' views + asset managers to vote by it**: Swiss Regulation against excessive pay at listed companies 2013 (*Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften 2013*)
- Ensure that **beneficiaries can enforce** all pension fund duties and voting policy: Companies Act 2006 ss 260-263
- **Duty to divest all fossil fuels**, to shift capital to clean energy: Netherlands, ABP, €520 bn, divested all liquid assets and is phasing down rest

(6) Benefits and costs of reform

- Save up to **£2.048 bn p.a.** in the costs of administering 86 Local Government Pension Schemes: DLUHC (2 Nov 2023).
- **50% extra pension returns** from shifting to collective defined contribution schemes. **Dutch** collective DC schemes charge **0.15%** of total assets, while average UK individual DC scheme charges were **1.27%**: D Pitt-Watson (2010-2012)
- **Extra £8 billion investment** in the UK for each **1% of DC** scheme money that is kept in the UK: Treasury (2024)
- **Higher returns from renewables than fossil fuels**: Imperial Business School and International Energy Agency (March 2021) across global funds in past 10 years. The €520bn Dutch ABP fund has divested entirely.

Clean Energy Investing: Global Comparison of Investment Re

March 2021

Table 1 – Summary of Key Findings

Global Markets Portfolios		
	Fossil Fuel	Renewable Power
10 Years		
Total Return	59.0%	422.7%
Arithmetic Return	69.8%	189.1%
AAR	4.7%	18.0%
Annualised Volatility	6.3%	6.2%
Sharpe Ratio	0.30	0.86
Beta	1.31	1.08
5 Years		
Total Return	59.3%	186.6%
Arithmetic Return	62.7%	116.8%
AAR	9.8%	23.4%
Annualised Volatility	7.3%	6.1%
Sharpe Ratio	0.45	1.06
Beta	1.48	1.08

Advanced Economies Portfolios		
	Fossil Fuel	Renewable Power
10 Years		
Total Return	31.6%	727.0%
Arithmetic Return	65.6%	236.1%
AAR	2.8%	23.5%
Annualised Volatility	8.0%	6.3%
Sharpe Ratio	0.22	1.06
Beta	1.61	1.19
5 Years		
Total Return	52.9%	501.6%
Arithmetic Return	70.7%	193.7%
AAR	8.9%	43.2%
Annualised Volatility	9.7%	6.4%
Sharpe Ratio	0.39	1.69
Beta	1.87	1.18

Emerging Market and Developing Economies Portfolios		
	Fossil Fuel	Renewable Power
10 Years		
Total Return	113.8%	136.0%
Arithmetic Return	93.7%	114.9%
AAR	7.9%	9.0%
Annualised Volatility	5.4%	6.9%
Sharpe Ratio	0.47	0.46
Beta	0.90	1.01
5 Years		
Total Return	164.9%	121.2%
Arithmetic Return	108.2%	92.3%
AAR	21.5%	17.2%
Annualised Volatility	5.7%	6.4%
Sharpe Ratio	1.03	0.78
Beta	0.91	0.97

China Portfolios		
	Fossil Fuel	Renewable Power
10 Years		
Total Return	41.1%	243.5%
Arithmetic Return	59.3%	167.3%
AAR	3.5%	13.1%
Annualised Volatility	6.4%	8.6%
Sharpe Ratio	0.24	0.54
Beta	0.77	0.86
5 Years		
Total Return	-7.8%	29.0%
Arithmetic Return	2.6%	41.4%
AAR	-1.6%	5.2%
Annualised Volatility	5.9%	7.4%
Sharpe Ratio	-0.03	0.28
Beta	0.83	0.96

Discussion questions

- 1. What are the best options to ensure pensions and asset managers cease fossil fuels to comply with the Paris Agreement?
- 2. What are the more desirable reforms to pension and asset manager governance?
- 3. How can funds be re-structured to raise long-term investment, including in productive UK assets?