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Integrating sustainable investment into UK pension reform

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Westminster roundtable

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Introduction

Sustainability factors bear greater significance for pensions due to their extended time horizons. Despite growing evidence that systemic risks such as climate change and inequality directly impact long-term investment outcomes, the UK government's Pensions Investment Review has shown little ambition to integrate ESG considerations. With £3 trillion in assets, the UK pension system holds untapped potential to support economic resilience and net zero goals. In anticipation of the Pensions Bill and the Review's final report, this discussion invited the UK Sustainable Investment and Finance Association (UKSIF) to present recommendations from its recent report to pension leaders, policymakers, and ESG experts. Participants explored how public funding, the integration of social and environmental factors, regulatory certainty, fiduciary clarity, and aligning international standards and frameworks could unlock pension capital to support resilient UK growth.

Key takeaways

Driving sustainable UK growth

- The government's ambition for pensions reform to deliver a "big bang on growth" is contingent on a pipeline of investable projects, particularly in infrastructure.
- Mandation of pension investment into UK assets is hazardous. The government should instead focus on making the UK a more attractive investment environment through stable policy, de-risking, and pipeline development — "Clearly there is a problem that Canadian pension funds are invested in Canada" similar to Australia. "One of the challenges we see is a lack of things to invest in."
- Planning reform is essential, "the time value of money applies equally to public and private investors, delays undermine investment returns".
- The imperative of building a larger pipeline of projects underlines the importance of the newly formed British Infrastructure Taskforce, which will examine infrastructure sector-by-sector — "you cannot just come up with a broad framework, 'just go and do green things', you need to find opportunities, and explore how new companies can help decarbonise economy".
- Policy and regulatory certainty: Frequent policy changes, such as rolling back electric vehicle mandates, erode investor confidence. Cross-party consensus on sustainability goals would enhance policy stability.

Public funding

- Expecting investors to increase their risk tolerance is unrealistic under current market dynamics.
- Public capital — i.e. the National Wealth Fund (NWF) — must act as a de-risking agent, not a competitor, enabling pension funds to invest confidently in UK assets. Public frameworks should facilitate rather than compete with private investment.
- Early engagement with investors can ensure project structures meet market expectations.
- Should ministers be more ambitious with the NWF? Germany's equivalent disperses £68bn, compared to the NWF's £1.7bn. "If the National Wealth Fund could sell bonds and invest many times its initial capital, it would become much more interesting for pension funds". Contrary opinion: "The NWF has to work upstream, helping turn ideas into investable projects."

"Social factors are definitely a risk" and must be integrated alongside climate risk

- Social risks, e.g. inequality and labour rights, are systemic and affect investment returns.

- Clear metrics and standards for social factors are underdeveloped, unlike climate frameworks, their integration into ESG frameworks is essential for holistic risk management.
- However, social metrics are intrinsically difficult, "social factors are more local than climate, but as a global investor, if you translate everything into money and return, then you can find the common denominator".
- The work of the Taskforce on Social Factors (TSF), which completed its mandate under the last government, is continuing at the international level through the Taskforce on Inequality and Social-related Financial Disclosures (TISFD). The UK must continue to lead.
- Regulators should provide guidance on social factor disclosures, similar to climate reporting.

Global regulatory alignment — "expectations are quite different"

- Interoperability reduces regulatory burdens and supports cross-border investment. However, regulations across the UK, EU, and US are diverging, creating compliance challenges for global investors — "interoperability is such a big challenge, we're getting to a point of having to choose between European clients or American clients".
- The International Sustainability Standards Board (ISSB) offers a much-needed baseline global accounting framework.
- Both this and the previous government are known to have favoured ISSB standards, the UK should lead in embedding them into regulation, aligning with international frameworks to streamline compliance and support global investment.
- The framework of the UK's Taskforce on Social Factor's will inform the ISSB's forthcoming standards on human capital and human rights, effectively globalising the UK's leadership in this space.

Issues raised

Systemic risks through collective action

"Are we doing anything to manage systemic risks? The answer at the moment is no." Systemic risks — e.g. climate change, inequality — threaten long-term investment returns, they cannot just be "diversified away". No single investor can mitigate these risks independently. Collective action is essential. Investors, regulators, and governments must collaborate at the international level through institutions like the UNFCCC. System-level stewardship must become integral to pension fund strategies. Fiduciary frameworks should explicitly acknowledge systemic risk as financially material.

Fiduciary duty

There is broad agreement that pension trustees need clearer guidance on integrating sustainability into fiduciary duties, legal obligation of trustees to act in the best financial interests of their beneficiaries. The Financial Markets Law Committee (FMLC) asserts that current UK law permits trustees to consider ESG factors as part of their fiduciary responsibilities — the Committee also recognises systemic risks like climate action as a collective action that cannot be resolved through portfolio diversification. However, trustees often lack the confidence to act without regulatory backing. This hesitancy stems from potential legal liabilities if investments underperform — “there has to be a very strong argument to prove an investment is going to lead to the best outcome for the customer”. Explicit guidance supporting the integration of environmental and social factors would empower trustees to address systemic risks and align pension investments with long-term sustainability goals.

Auto-enrolment and pension adequacy

As part of its pensions reform agenda, the government must address deep-rooted inequalities in retirement outcomes. Over 50% of savers are projected to fall short of retirement income targets, the gender pensions gap is 39%. Other jurisdictions have gone further than the UK with auto-enrolment — e.g. Australia does not permit opting out. Ministers also have the option of lowering the minimum age from 22 to 18, removing the £6,240 lower earnings limit, or raising contributions to 12% or 15%. “A lot of political compromises” were involved in securing auto-enrolment in the UK, “taking choice away from people who might actually be better off not auto-enrolling” is challenging for policymakers, however, “if you allow people to opt out now, they will never build a pension”. What’s the solution? “Linking savings to sustainability goals makes reform politically attractive.”

Recommendations

- Provide regulatory clarity on fiduciary duty to integrate sustainability considerations.
- Orientate the National Wealth Fund towards de-risking projects and developing pipelines.
- Adopt ISSB standards and strengthen leadership to raise interoperability between frameworks globally.
- Promote the integration of social factors into ESG frameworks with clear metrics.
- Ensure SME engagement in sustainability through proportionate regulation and targeted capacity-building, recognising smaller businesses’ resource constraints and critical role in supply chains

Links

- UK Sustainable Investment and Finance Association, 'Unlocking UK pension capital for sustainable growth'
- Finance Innovation Lab, 'Fair, Green Pensions For All'
- British Infrastructure Taskforce
- UK Government, 'Pension megafunds could unlock £80 billion of investment as Chancellor takes radical action to drive economic growth'
- Financial Markets Law Committee, 'Pension fund trustees and fiduciary duties: Decision-making in the context of sustainability and the subject of climate change'
- The Taskforce on inequality and social-related financial disclosures — see TSF framework

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