

IN SEARCH OF SUSTAINABILITY

PRIVATE RETIREMENT SYSTEMS IN AUSTRALIA, THE UNITED KINGDOM, AND THE UNITED STATES



THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

PRI DISCLAIMER

The information contained in this report is meant for the purposes of information only and is not intended to be investment, legal, tax or other advice, nor is it intended to be relied upon in making an investment or other decision. This report is provided with the understanding that the authors and publishers are not providing advice on legal, economic, investment or other professional issues and services. PRI Association is not responsible for the content of websites and information resources that may be referenced in the report. The access provided to these sites or the provision of such information resources does not constitute an endorsement by PRI Association of the information contained therein. Unless expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed in this report are those of the various contributors to the report and do not necessarily represent the views of PRI Association or the signatories to the Principles for Responsible Investment. The inclusion of company examples does not in any way constitute an endorsement of these organisations by PRI Association or the signatories to the Principles for Responsible Investment. While we have endeavoured to ensure that the information contained in this report has been obtained from reliable and up-to-date sources, the changing nature of statistics, laws, rules and regulations may result in delays, omissions or inaccuracies in information contained in this report. PRI Association is not responsible for any errors or omissions, or for any decision made or action taken based on information contained in this report or for any loss or damage arising from or caused by such decision or action. All information in this report is provided "as-is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, expressed or implied.

ACKNOWLEDGEMENTS

We would like to thank the following for their contribution to the report:

- Greg McClymont, Director of Policy and External Affairs, The People's Pension
- David C. John, Senior Strategic Policy Advisor, AARP and Non-resident Senior Fellow, the Brookings Institution
- The Honourable Nick Sherry, CEO, Sherry and Associates International
- Zachary May, Executive Director, Strategy and Policy, IFM Investors
- Steve Webb, Partner, Lane Clark and Peacock
- Rob Bauer, Professor of Finance (Institutional Investors), Maastricht University School of Business and Economics, and Executive Director of ICPM
- Jens-Christian Stougaard, Founder and CEO, HaNoLo Analytics

CONTENTS

EXECUTIVE SUMMARY	5
INTRODUCTION	7
IMPACT OF POLICY AND REGULATION	8
EFFECT OF RETIREMENT SYSTEM STRUCTURES	11
ROLE OF SERVICE PROVIDERS	21
SEVEN RECOMMENDATIONS FOR POLICY MAKERS AND THE INDUSTRY	24

EXECUTIVE SUMMARY

Policy frameworks shape retirement system structures, and together these determine system sustainability. We define sustainability as the ability of plan boards and managers to be responsible investors, active stewards, and allocators of capital to economic activities with desirable social and environmental outcomes. Policymakers often ignore the connection between policy, structure and sustainability when designing private retirement systems. This research examines these themes in the context of the Australian, UK and US private retirement systems and makes seven recommendations for policymakers and industry bodies.

Policy frameworks relating to responsible investment are traditionally designed separately from policies relating to retirement plans. As a consequence, sustainability is often not a core focus of retirement regulation. The UK has recently introduced stronger and more supportive regulation on responsible investment for the retirement industry. However, Australia and the US have yet to do so. In the US, regulatory guidance on responsible investment has vacillated with each new administration. Currently, it is not supportive. In fact, across the three countries a narrow focus on plan governance, costs, and direct financial benefits has led to unintended consequences in respect of sustainability. From a macro perspective, this could lead to long-term negative effects on retirement systems, economies and investment outcomes.

For the most part, the weight of capital and influence of actors in private retirement systems has shifted away from institutional asset owners that undertake investment strategy, asset allocation and manager selection on behalf of beneficiaries. It has gravitated towards financial service providers, who have assigned responsibility to individuals to determine their own investment strategies. In the US, the prevalence of 401(k) plans and Independent Retirement Accounts are the primary drivers of this trend. This structural landscape means that ownership is diffused and savers and plans lack the resources, knowledge and influence to demand that external service providers deliver products and services that integrate sustainability affordably.

UK and US private sector occupational defined benefit plans, US 401(k) plans and personal pensions across all three countries - around half of private retirement assets globally (worth more than \$22 trillion) - face significant challenges from a sustainability perspective:

- With the notable exception of a small number of UK private sector workplace defined benefit (DB) plans, there has been limited leadership on sustainability in the DB segment, which manages \$5.5 trillion in assets. Private workplace DB plans are increasingly closed to new members and accrual. With sponsors and trustees focused on liabilities and de-risking, sustainability is becoming even less of a priority. In the absence of regulatory intervention or determined action by trustees and sponsors, private workplace DB plans are unlikely to be major providers of new sustainable capital going forward.
- The structure, governance and legal environment around 401(k) plans mean that some \$6.2 trillion in assets is managed with limited institutional leadership on sustainability. One reason is that the language of recent guidance — namely the Employee Benefits Security Administration's (EBSA) Field Assistance Bulletin No. 2018-01 — leaves fiduciaries reluctant to deviate from peers. There is a high level of reliance on service providers and the cost focus of the 401(k) sector has resulted in a lack of attention to sustainability issues.
- In personal pension markets, individual savers are faced with complex choices that they are generally ill-equipped to make. They therefore rely on advisers, particularly to make investment decisions. There are low levels of customer engagement and product switching, and limited commercial incentives for providers to introduce new sustainable products or services. As a result, more than \$12 trillion of personal pension savings is being managed across the three countries with minimal consideration of sustainability issues. Stewardship of assets is largely left to the discretion of asset managers, with little client oversight. From a reviewer's perspective, there is limited data available around service providers, market share and investment products, making it difficult to judge some aspects of the market.

Asset managers, investment consultants and other service providers - despite their market power and influence - lack incentives to deviate from the “norm”. They operate in relatively concentrated markets and have extensive resources and knowledge. While their market power and resources in theory mean that service providers are often better placed than retirement plans to drive responsible investment and stewardship, their lack of incentives in practice leads to limited execution. This is a key structural challenge and means system sustainability is often undermined.

To promote sustainability, policymakers should pay closer attention to retirement system structure and policy and adopt measures – including fund consolidation – to promote retirement plans with scale that are well-governed and active when it comes to sustainability issues.

Policymakers and regulators:



Embed sustainability in retirement system design and align retirement and pension policy with sustainability policy objectives.



Prioritise fund consolidation in the private sector retirement system.



Require retirement plans to incorporate sustainability issues in investment strategies and decisions, or at least remove barriers.



Ensure, through fit and proper governance arrangements, that plans include the notion of sustainability in their duty to act in members' best interests.

The retirement system should strive to structurally support plan boards and managers in acting as responsible investors, active stewards and allocators of capital to economic activities with desirable social and environmental outcomes. Universal asset owners in particular – including large retirement plans – can play a key role in influencing how systemic sustainability issues are addressed by other actors. The presence of such entities and their relative weight in the financial industry is vital for the general functioning of the system.

To address the system challenges identified in this paper, the PRI proposes seven preliminary interventions for policy makers and regulators, and for industry bodies.

Industry bodies (including the PRI):



Facilitate further international and domestic coordination on systemic sustainability issues between universal asset owners.



Support retirement plans of various types and sizes with education, tools and collaborative engagement facilities.



Foster engagement with asset managers and service providers to ensure that their policies, processes, products and services meet the sustainability needs of their clients and beneficiaries.

The PRI looks forward to discussing these interventions with partners, nationally and internationally, and we welcome feedback from policymakers, academics and industry groups as we move the agenda forward.

Please get in touch: [Link to email address](#)

INTRODUCTION

Policy frameworks shape retirement system structures, and together these determine system sustainability. Retirement system sustainability is defined as the ability of plan boards and managers to be responsible investors, active stewards and allocators of capital to economic activities with desirable social and environmental outcomes. Policymakers often ignore the connection between policy, structure and sustainability when designing private retirement systems.

In this analysis, we examine the policy frameworks and important structural variables - for example fund concentration, number and types of actor and relative market power - within the private retirement systems in the UK, Australia and US. In reviewing policy and structure, we aim to better understand the behaviour of various actors, their key challenges, and how retirement systems function overall. This, in turn, provides insight into how, or whether, systems facilitate desirable economic, social and environmental outcomes.

Through this research, we are building a global knowledge base to inform policymakers, academics, and industry about important sustainability considerations in the design of private retirement systems. We identify key challenges for specific national retirement systems and analyse comparative aspects in relation to policy and regulation, structure, governance and the role of service providers.

The primary objective of a retirement system is to provide financial security in retirement. In determining the extent to which national retirement systems deliver on this objective, the Melbourne Mercer Global Pension Index assesses national systems – state and private – based on three characteristics: adequacy, sustainability and integrity.¹ Sustainability in this context means fiscal or funding sustainability and is based on, among other factors, funding levels, life expectancy, labour force participation and economic growth. These are all important elements. In this report, we introduce a fourth dimension; the extent to which system design allows retirement plan boards and managers to be responsible investors, active stewards and allocators of capital to economic activities with desirable social and environmental outcomes.

What do we mean by desirable social and environmental outcomes? The last couple of years have seen several examples of convergence between financial and sustainability policy as governments seek to meet the commitments of the Paris Climate Agreement, the UN Sustainable Development Goals and international obligations on human rights.² The idea that the functioning of the global financial system is hinged on the sustainability of the economy, the planet and wider society is now more widely understood. Finance is recognised as instrumental in promoting sustainable development and growth, including the mitigation of, and adaptation to, climate change. At the same time, the stability of the financial system and the performance of individual plans are contingent on the appropriate management of environmental, social and governance (ESG) factors in the investment process.

Over \$40 trillion is held in workplace and personal pension plans. Investment is typically made on multi-decade time horizons, reflecting the retirement payments profiles of retirement plans. This creates a strong convergence of interests between sustainability policy priorities, which require long-term financing and capital reallocation, and retirement plans, which require sustainable long-term investment opportunities and risk management. In addition, policymakers and savers increasingly recognise that wellbeing in retirement depends on healthy social and environmental systems.³ Certainly, influential retirement plans with strong governance, resources, expertise and long-term outlooks on ESG issues can play a key role in ensuring that these issues are prioritised by the financial system overall.⁴

1 Melbourne Mercer Global Pension Index 2019

2 Examples of sustainable finance strategies include both regional initiatives (Asia Sustainable Finance Initiative and EU High-Level Expert Group on Sustainable Finance) and national initiatives (Australia Sustainable Finance Initiative, Canada's Expert Panel on Sustainable Finance, China's Ecological Civilisation vision and UK Green Finance Taskforce).

3 UK Government Department for International Development, Investing for a better world, September 2019; Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows, Samuel M. Hartzmark Abigail B. Sussman, 2019

4 [PRI How Asset Owners Can Drive Responsible Investment, 2016](#)

IMPACT OF POLICY AND REGULATION

Policy frameworks have a significant impact on retirement system structures, and together these impact system sustainability, which is defined as the ability of plan boards and managers to be responsible investors, active stewards and allocators of capital to economic activities with desirable social and environmental outcomes. This is a critical dimension that is often missed by policymakers in system design.

Policy frameworks relating to responsible investment are traditionally designed separately from broader policies relating to retirement plans. As a consequence, sustainability is not at the core of most policy making. The UK has recently introduced regulation that is more supportive of responsible investment, but it is the only country in the scope of this report to have done so. In the US, regulatory guidance on responsible investment has varied over time but is currently not as supportive as it could be. In most cases, a narrow policy focus on plan governance, costs and positive investment returns has had unintended consequences in respect of sustainability. From a macro perspective, this could lead to long-term negative effects on retirement systems, economies and therefore on investment outcomes.

The Australian, UK and US have the biggest pools of private retirement savings globally, which means they are particularly relevant in the context of analysing how to direct retirement savings and ensure stewardship to encourage economic activities with desirable social and environmental outcomes. Both workplace retirement provision – whereby people save for retirement through retirement plans offered by their employer – and personal pensions – which individuals set up for themselves – are well established in these countries and coverage is high; automatic enrolment regulation was introduced in Australia in 1992 and in the UK in 2012. Again, the policy and regulatory frameworks for these systems are critical to how retirement plans and providers deal with sustainability.

Table 1: Country-by-country policy overview. Sources: ACSI, APRA, TPR, DWP, FCA, DOL, The Investor Stewardship Group

	CONVENTIONAL			RESPONSIBLE INVESTMENT	
	Policy focus on fund consolidation	Mandatory Auto-enrolment	DC restrictions on charges	Regulatory requirement to consider ESG	Stewardship transparency requirement
Australia	High	Yes	Standardised ⁵	No – but should consider climate risks	Industry-led and voluntary
UK	Medium	Yes (employee can opt out)	Cap 0.75% (default)	Yes	Yes – comply or explain
US	Low	No	No	No	Industry-led and voluntary

Policy frameworks vary across the three jurisdictions, as do policies in relation to responsible investment. As the table above indicates, the US retirement system is generally subject to a more market-led approach, whereas Australian and UK policymakers have generally played a more active role.⁶

UK policymakers have been particularly proactive, recently introducing new requirements for consideration of ESG factors by retirement plans, including stewardship. Australian policymakers have been the most forceful in driving fund consolidation in the private retirement system. However, they have not put sustainability at the core of policymaking.

⁵ Super providers can only charge for a prescribed list of services including admin, investment, and other expenses which are limited to the recovery of the actual cost related to, for example, exiting and switching

⁶ The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 (now the Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018) DWP September 2018

CONVENTIONAL RETIREMENT AND PENSION POLICY

The design of conventional retirement and pension policy has implications for the sustainability of private retirement systems. Whether it is policymakers encouraging fund consolidation, tightening of solvency requirements, auto-enrolment legislation or measures to protect consumers and savers from excessive costs, policy instruments influence asset pools, as well as governance and investment activities; including in relation to sustainability.

In Australia, and to a lesser extent in the UK, policymakers have encouraged fund consolidation to improve retirement plan efficiency and the quality of plan governance. They consider scale – promoted through fund consolidation – to be a prerequisite for high-quality governance, which is instrumental in delivering positive outcomes for savers. Fund consolidation is more progressed in Australia. The UK has made less progress, but has established eight Local Government Pension Scheme pools to manage assets for the 89 underlying schemes. The Pensions Regulator (TPR) is increasingly keen to push sub-scale single-employer defined contribution (DC) plans into multi-employer arrangements, which will improve governance of plans. Recent fund consolidation in the UK, however, has predominantly been market-led, with master trusts at the vanguard.

The US system is still fragmented and has not received as much regulatory attention. The recent passing of the SECURE Act, effective January 2020, now allows small businesses to join private-sector multi-employer funds and could lead to some consolidation of the 401(k) sector. In addition, more states have introduced auto-IRAs as retirement savings vehicles for employees not covered by 401(k) plans or similar. These state-based vehicles are set to grow in the coming years and over time could offer a realistic alternative for some private sector employers.⁷ None of these innovations are driven by governance or sustainability concerns, but rather, 1) in the case of auto-IRAs by an attempt to increase the number of people saving for retirement and, 2) for the SECURE ACT mainly by appetite for corporate cost savings. Whether these changes lead to real fund consolidation is yet to be seen. Still, the creation of bigger, more professionally-managed plans – as the PRI has previously documented – is generally positive for responsible investment practices.⁸ Though scale is not sufficient in itself, it is often a prerequisite for good plan governance and for the quality of responsible investment strategies.

In all three jurisdictions, the primary focus of retirement and pension policy and regulation is members' interests and financial outcomes. In DB retirement plans, this creates an emphasis on plan funding, with the sponsor bearing the risk of any shortfall between assets and promised benefits. In DC retirement provision, the risks of not accumulating enough assets for retirement pass to the member. This has led regulators to focus on operational and investment efficiency and – following the introduction of automatic enrolment – the availability of suitable, reasonably-priced default options. Automatic enrolment has seen millions of savers entering the system without making an active choice, which has put the onus on policymakers to protect their interests.

TPR and FCA in the UK have imposed a cap of 75 basis points on member-borne charges for default funds, with the aim of halting the potential erosion of retirement savings by high costs and fees. These relatively stringent measures are sensible in a fragmented retirement system to compensate for varying quality of governance and to protect savers interests. The charge cap still allows for providers to include ESG considerations in their default strategies (indeed, the two biggest master trusts do so), or to invest more actively, but it still leads to restrictions on certain asset classes. However, it also means that trustees and Independent Governance Committees (IGCs) – which oversee and advise contract-based pension providers in the UK – often prioritise costs over sustainability.

Cost is also a primary consideration for the design of default funds within 401(k) plans in the US. This is largely because of the threat of litigation if trustees or other fiduciaries fail in their “continuing duty to monitor” the investment options they offer.⁹ Some class action suits have resulted in multi-million-dollar settlements in favour of participants.¹⁰ Trustees therefore prioritise low-cost investment solutions such as Target Date Funds (TDFs) and index funds to ensure they keep costs under control.

In Australia, providers tend to focus on costs and net risk-adjusted returns. Superannuation funds, most of which offer a prudentially-regulated default investment option, have more diversified asset allocations, with about 20% on aggregate allocated to private equity and real assets. Individual industry funds have allocations of up to 40%. Due to regulatory and legal cost restrictions, and non-regulatory constraints, it is unlikely that UK and US default funds could replicate this asset allocation. Non-regulatory hurdles include liquidity requirements and the resources necessary to properly evaluate alternative investments.

7 The California version, CalSavers is currently being challenged in court by the current administration on lack of compliance with ERISA

8 PRI, Response to DWP consultation paper on investment innovation and future of consolidation, 2019

9 Supreme Court of the United States, *Tibble et al. v. Edison International et al*, October 2014

10 American Bar Association, *ERISA: Thou shall not pay excessive fees!*, 2019

The constraints on the design of default funds associated with this cost focus have been a challenge. Responsible investment has widely been seen as more expensive and there has been a common misperception that it delivers lower returns than traditional strategies.¹¹ With that in mind, policy efforts on cost control have significant implications for prioritization of sustainability in the system.

RESPONSIBLE INVESTMENT POLICY

Regulators in the UK have for some time been clear that taking financially relevant ESG factors into account in retirement investment decisions is both permitted and encouraged. In fact, requirements have recently been tightened to ensure consideration of sustainability in retirement plan governance. The Australian Prudential Regulation Authority (APRA) has been less vocal about sustainability but has not stood in the way of voluntary initiatives by super funds. In the US, by contrast, regulation is commonly interpreted as discouraging sustainable investment strategies.

Regulators in both the UK and Australia have acknowledged the risks that climate change poses to private retirement systems. TPR and the Financial Conduct Authority (FCA) have imposed more stringent requirements on trustees and IGCs in terms of developing and reporting on responsible investment policies and stewardship activities. This should motivate retirement providers to prioritise sustainability. The regulators have not, however, directly addressed the issue of implementation and trustee or IGC capabilities in this area. Indeed, UK regulators appear to be considerably more advanced than most of the entities they regulate in terms of sustainability.¹²

This contrasts with the situation in Australia, where APRA has been less influential in encouraging responsible investment, compared to the super funds themselves. The boards of not-for-profit super funds with employee-nominated trustees have been particularly active and have introduced sustainability with knock-on effects for the retirement system overall. However, APRA recently announced plans to develop a prudential practice guide – including a climate change vulnerability assessment – across all regulated entities.¹³ APRA will also update SPG 530, its prudential practice guide covering investment governance, to provide insights into good practice on ESG integration.

Policy in relation to, and regulation of, retirement systems is important for the extent to which plans and providers can, and will, implement responsible investment practices, stewardship and capital allocation to economic activities with desirable social and environmental outcomes. This is clear when policymakers introduce responsibilities or issue guidance in relation to how funds should manage ESG risks and opportunities. But perhaps more important are the measures that policymakers apply in relation to more conventional components of retirement plan regulation such as plan governance, fund consolidation and cost control, as these determine the structure of the system, the shape of individual retirement plans and their capabilities and intentions on sustainability. If there are too many other, potentially conflicting, policy priorities for retirement plans, there is a risk that sustainability issues will be overlooked.

¹¹ See for example [Chart of the Week: Investors 'still believe ESG investing limits returns'](#), IPE 27 September 2019

¹² Putting ESG into Practice, Society of Pension Professionals, January 2020

¹³ Letter to all APRA-regulated entities, Understanding and Managing the Financial Risks of Climate Change, 24 February 2020

EFFECT OF RETIREMENT SYSTEM STRUCTURES

For the most part, the weight of capital and influence of actors in private retirement systems has shifted. It has moved from institutional asset owners that undertake investment strategy, asset allocation and manager selection on behalf of beneficiaries towards financial service providers, who have assigned responsibility to individuals to determine their own investment strategies.

This structural landscape means that ownership is diffused and savers and plans lack the resources, knowledge and influence to demand that external service providers deliver products and services that integrate sustainability affordably.

Of course, each system is different in terms of the number and types of agents in the market, both sellers and buyers; their relative market power, in terms of ability to set prices or drive supply of products and services which,

cost-effectively, integrate sustainability; the degree of concentration; and differentiation and uniqueness of products and services. Systems also vary in terms of how they are established and governed, the size of asset pools, and who influences investment decisions.

Support for responsible investment in each retirement system can be represented by proxy through the success (or otherwise) of the PRI in obtaining signatories across each system (Table 2).

Table 2: High level country-by-country overview. Sources Australia APRA; UK TPR, FCA; US ICI; PRI signatory database. All data (rounded) is from 2019.

	TOTAL PRIVATE RETIREMENT ASSETS (\$BN)	WORKPLACE RETIREMENT ASSETS (\$BN)	PERSONAL PENSION ASSETS (\$BN)	APPROXIMATE TOTAL PRI SIGNATORY COVERAGE	APPROXIMATE WORKPLACE PRI SIGNATORY COVERAGE	DB AS % OF TOTAL WORKPLACE ASSETS	DC AS % OF TOTAL WORKPLACE ASSETS
Australia	1,945	1,430	515	47.1%	64%	14%	86%
UK	3,650	3,030	620	19.5%	23.5%	70%	30%
US	30,009	18,984	11,025	8.1%	12.5%	53%	47%

Exchange rates used: \$1= A\$1.45, \$1= £0.76

The PRI's signatory base covers nearly 50% of the assets in the Australian retirement system and over 60% of workplace retirement savings. In the UK, the figures are 19.5% and 23.5% respectively. In the US, PRI signatories hold only 8% of system assets and 13% of workplace retirement assets.

Just over half of the total workplace assets across these three countries are held in DB plans. DB assets continue to grow, due to investment returns and contributions. However, there is a clear structural trend towards DC workplace retirement arrangements. This evolution is all but complete in Australia, with only a handful of super funds offering purely DB plans, and is gathering pace in the UK and the US. In the UK, the number of private sector workplace DB plans

has fallen from 7,751 in 2006 to 5,436 in 2019 and only 11% of these plans are open to new members.¹⁴ In the US, private sector DB plans made up 21% of system assets in 1998 but only 12% in 2019.¹⁵ Some 40% of private sector workers in the US are now members of DC plans only, and 25% of members are in DB plans that are closed to new entrants.¹⁶ In both the UK and the US countries, public sector workplace retirement provision remains primarily DB, and these plans generally remain open. The decline of private sector workplace DB provision is important for sustainability as it has implications for the nature of ownership, governance and allocation of retirement assets and for regulatory priorities that may run counter to sustainability. At the same time, the transfer of risk from the employer to the employee should encourage savers to pay more attention to how their assets are invested (although retirement saving remain a topic of low interest for most people).

¹⁴ PPF Purple Book, 2019

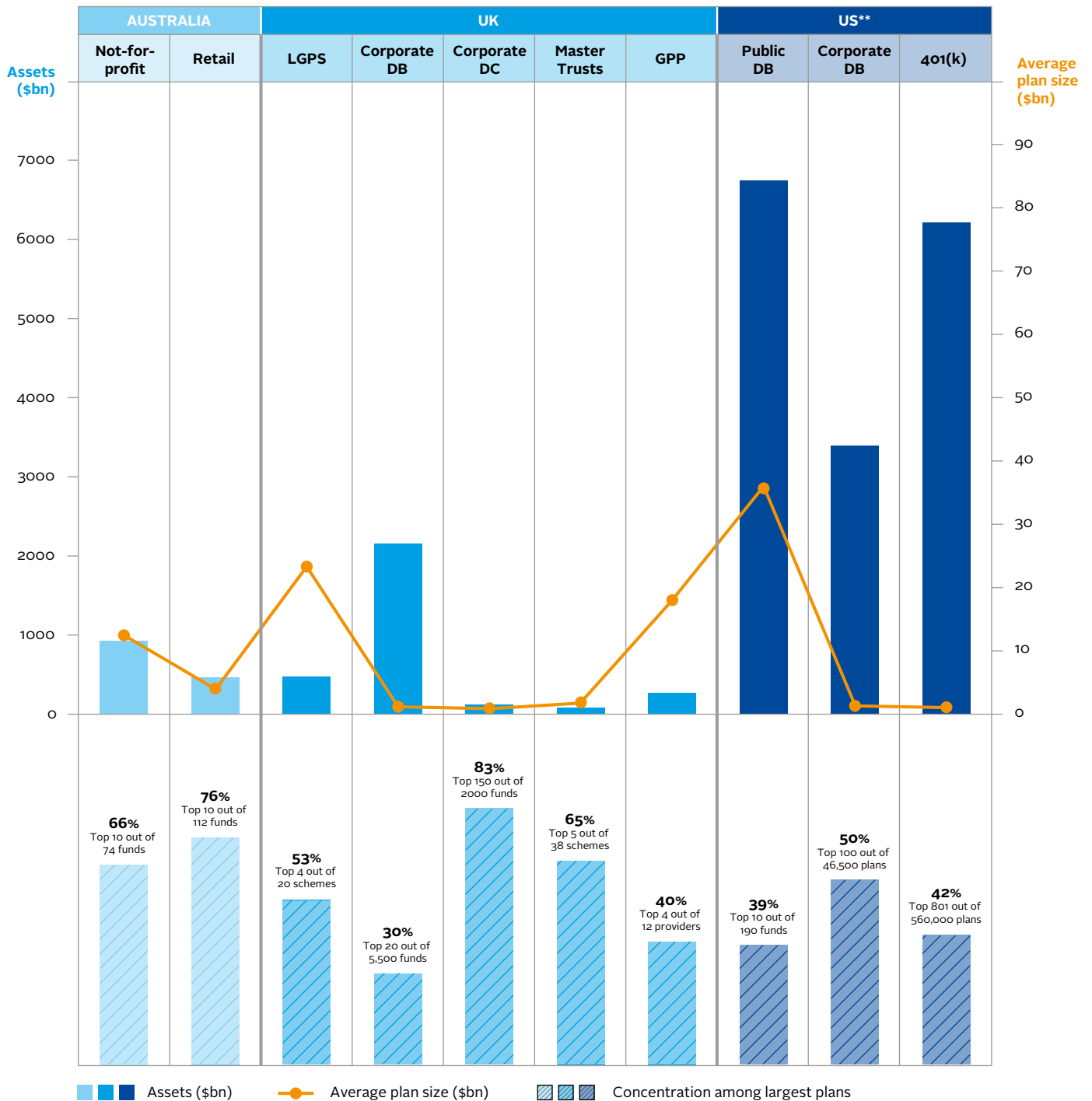
¹⁵ EBSA Private Pension Plan Bulletin December 2018

¹⁶ Putting Numbers to the Shifting Retirement Landscape, EBRI Fast Facts, January 23rd 2020

CONCENTRATION OF WORKPLACE RETIREMENT PLANS

While personal pensions are highly fragmented, workplace retirement assets are to some extent concentrated in a smaller number of bigger plans; a trend that – with the exception of the US - is encouraged by regulators. There remains a long tail of smaller plans in all three countries.

Figure 1: Concentration / fragmentation of assets within workplace retirement system. Source: Australia APRA, UK Local government scheme websites, TPR, FCA, US EBSA, Investment Company Institute; data (rounded) is from 2019.



	ASSETS (\$BN)	# PLANS	AVERAGE PLAN SIZE (\$BN)	CONCENTRATION AMONG LARGEST PLANS
Australia				
Not-for-profit (NFP) superannuation funds*	895	74	12.09	Top 10 funds = 66% of NFP assets
Retail superannuation funds	430	112	3.84	Top 10 funds = 76% of retail sector assets
UK				
Local Government Pension Schemes	450	8 pools in England & Wales; 11 schemes in Scotland; 1 scheme in Northern Ireland	22.50	Top four pools = 53% of local government assets
Corporate DB pension funds	2,125	5,500	0.39	Top 20 funds = circa 30% of corporate DB assets
Corporate trust-based DC pension funds	95	2,000	0.05	Top 150 funds = 83% of corporate trust-based DC assets
Master trusts	50	38	1.32	Top 5 Master trusts = circa 65% of Master trust assets
Group Personal Pension providers	235	12 (>2,000 schemes)	19.58	Top 4 GPP providers = circa 40% of GPP assets
US**				
Public sector DB funds	6,730	190	35.42	Top 10 funds = 39% of public DB assets
Corporate DB plans	3,380	46,500	0.07	Top 100 plans = 50% of corporate DB assets
401(k) plans	6,200	560,000	0.01	Top 801 plans (0.15%) = 42% of 401(k) assets

* Excludes an additional 19 Exempt funds with \$100bn in AUM as we do not have data on all individual fund sizes

** Excludes the Thrift Savings Plan, a plan for federal employees that is similar to a 401(k). TSP has over \$600 billion in assets.

KEY RETIREMENT SYSTEM CHALLENGES

Based on country-by-country analysis, we identify three key challenges – a combination of policy, structural and investment practice issues - relating to specific retirement segments that are particularly unfavourable to sustainability. As the table below suggests, these are some of the largest pools of private retirement capital in the world.

Table 3: Retirement segments ranked by assets, CAGR and PRI coverage. Sources Australia APRA; UK TPR, FCA; US ICI; PRI signatory database. All data (rounded) is from 2019.

SYSTEM CHALLENGE	RETIREMENT SEGMENT	ASSETS \$BN	5-YEAR CAGR	PRI SIGNATORY BASE
#3	US independent retirement accounts	11,025	8.6%	n/a**
	US public employees DB	6,730	5.3%	27%
#2	US 401(k)	6,200	7.1%	<1%
#1	US private sector workplace DB	3,380	2.4%	0%
#1	UK private sector workplace DB	2,125	7.7%	18%*
	Australia not-for-profit super funds	895	11.7%	75%
#3	UK personal pensions	620	Not available	n/a**
#3	Australia self-managed super funds	515	5.1%	n/a**
	UK local government pension schemes	450	9.8%	66%
	Australia retail super funds	430	3.1%	45%
	UK workplace DC contract	240	Not available	n/a
	UK workplace DC trust	95	17.9%***	18%*

* UK data does not allow the separation of DB and DC trust-based workplace assets

** There are no institutional entities in the personal pension system eligible for PRI asset owner membership

*** Excludes micro schemes

DECLINE OF PRIVATE SECTOR WORKPLACE DEFINED BENEFIT PLANS

With the notable exception of a small number of UK private sector workplace defined benefit (DB) plans, there has been limited leadership on sustainability in the DB segment, which manages \$5.5 trillion in assets. With sponsors and trustees focused on liabilities and de-risking, sustainability is becoming even less of a priority. In the absence of regulatory intervention or determined action by trustees and sponsors, private workplace DB plans are unlikely to be major providers of new sustainable capital going forward.

The private sector workplace DB segments in the UK and US remain some of the largest private retirement pools in the world; in combination they account for nearly \$5.5 trillion in assets. As Table 4 indicates, the largest plans in both countries hold a high proportion of assets. Many private sector workplace DB plans are already closed to new members (88% and 25% in the UK and US respectively) and more plans are now closed to new accruals (41% and 12% respectively). Plans are focused on de-risking and matching liabilities. In addition, they:

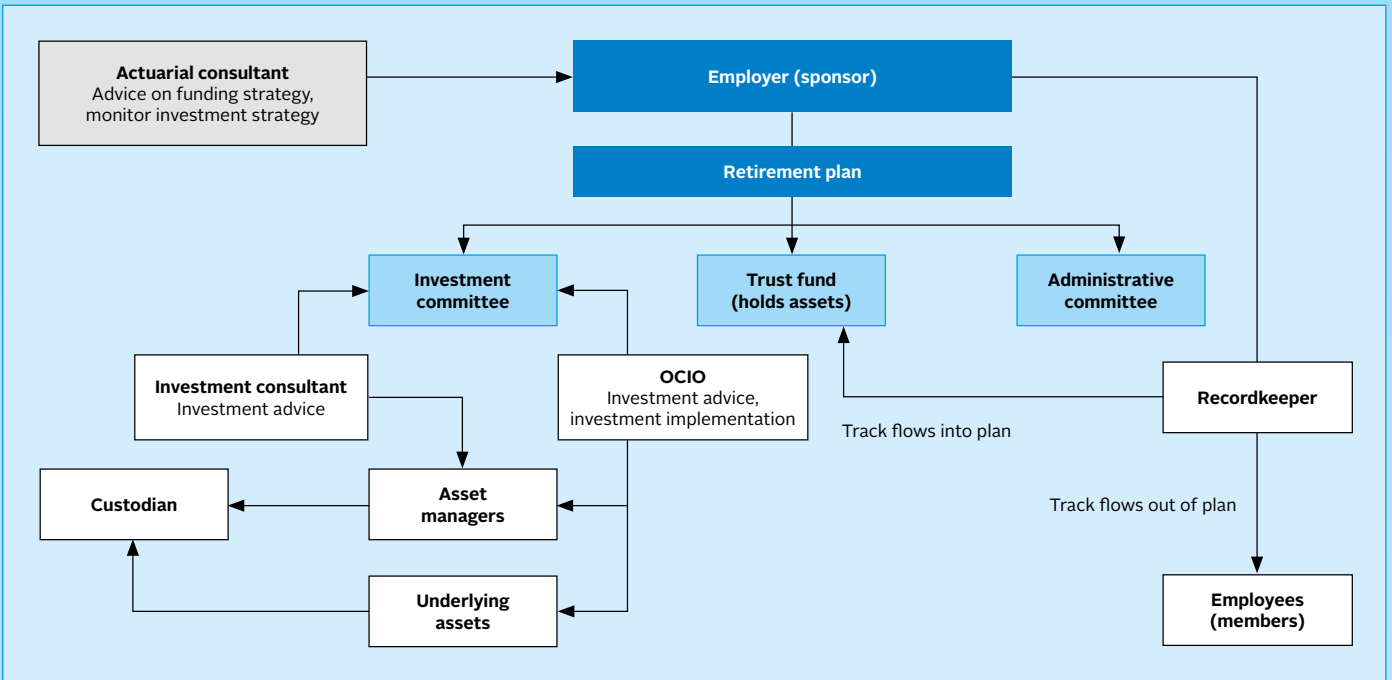
- face shorter investment time-horizons;
- are moving away from equities and into fixed income, for example through liability-driven investment (LDI) strategies;
- increasingly apply hedging instruments and buy-out arrangements to protect against shortfalls, for example caused by changes in life expectancy or low investment returns;¹⁷
- continue to outsource investment strategy and management to Outsourced Chief Investment Officer (OCIO) providers and fiduciary managers, primarily to improve investment implementation.

These developments have consequences for the extent to which private sector workplace DB plans consider sustainability. They will likely continue to pay some attention to environmental, social and governance (ESG) factors in their investments – including through their third-party managers – to the extent that they are financially material. However, as they face shortening investment time horizons and decreasing stakes in global markets, they will be less concerned with longer-term trends.

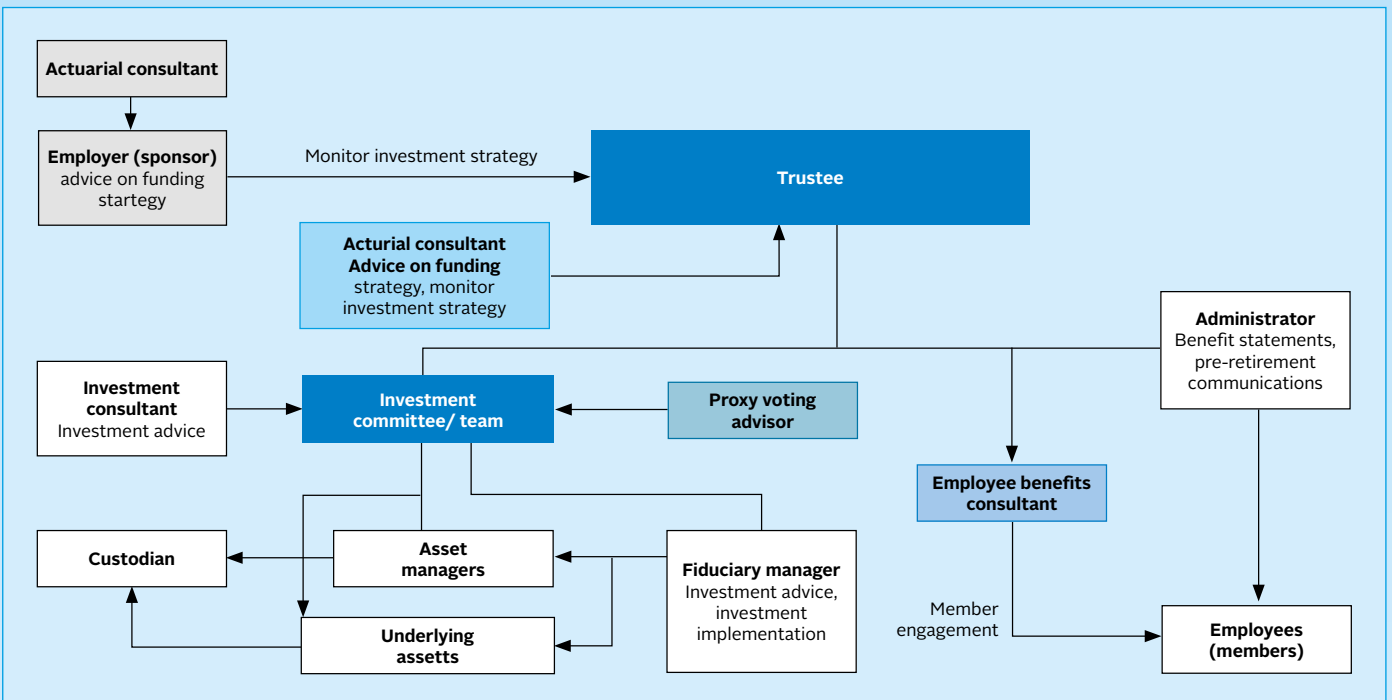
The governance set-up of private sector workplace DB plans also reveals some challenges. Sponsors in the UK and US routinely establish a governing body that takes on responsibility for managing and administering the plan. In the UK, the governing body is made up of independent trustees, who are required to act impartially and in members' best interests. In the US, the equivalent is a plan fiduciary, who is typically a corporate officer. The trustee/fiduciary is the ultimate steward of the assets and of beneficiaries' interests. The sponsor remains ultimately responsible for making up any shortfall in the plan's funding, so has a continuing interest in the investment strategy. In the UK, trustees have the final say on investments, but in the US, given the dual role of fiduciaries and potential absence of impartiality, the lines are more blurred. The diagrams below illustrate the differences between the two models.

¹⁷ In a buy-out, the DB plan's liabilities are transferred to an insurance company for a premium thereby removing the risk of funding shortfalls

US private DB value chain



UK private DB value chain



The value chain is made more complicated by the use of advisers. Investment consultants are influential in both countries and in the UK the trustee is legally bound to take “proper advice” on investment strategy. Almost all trustees and fiduciaries therefore use investment consultants for asset allocation and/or manager selection. Trustees in the UK may also employ proxy-voting advisers to help set and execute their voting policies. This is less common in the US, where asset managers typically hold voting rights.

As there is no straight line from the trustee or fiduciary to the assets, there is a risk that stewardship activity gets “lost”. Trustees and fiduciaries may feel they are justified in believing that their consultants, asset managers, investment team / investment committee, or custodian, are carrying out this activity and representing their views for them.

The shift from equities to fixed income further limits the ability of plans to exercise stewardship, although mechanisms for influence remain. In the UK, there is also evidence that private sector workplace DB plans are using more passive strategies – the Investment Association reports that over 30% of assets managed for third-party retirement plan clients were invested on a passive basis in 2018, and the majority of these assets are DB. Further, outsourcing to OCIO providers and fiduciary managers – which is becoming more common, especially in the US – and opting for buy-outs through insurance companies is likely to erode the influence of private workplace DB plans. OCIO models are driven by a focus on better investment implementation and buyouts are arranged in the sponsors’ interest to ensure financial protection against potential shortfalls. Sustainability rarely plays a prominent role in either.

US 401(K) PLANS AND THEIR SUSTAINABILITY CONSTRAINTS

The structure, governance and legal environment around 401(k) plans result in retirement assets being managed with limited institutional leadership on sustainability. One reason is that the language of the Employee Benefits Security Administration's (EBSA) 2018 Field Assistance Bulletin leaves fiduciaries reluctant to deviate from peers. Reliance on service providers is high and the cost-focus of the 401(k) sector has precipitated a lack of attention to sustainability issues.

More than 560,000 401(k) plans in the US have 67 million participants and manage \$6.2 trillion in assets. There is limited market concentration, with the 801 largest plans by number of participants holding 42% of assets. Most new members of 401(k) plans are automatically enrolled into the default option, which is likely to be a low-cost TDF or other balanced strategy.¹⁸

US 401(k) plans face a number of challenges in relation to sustainability:

- Plan fiduciaries are often corporate officers, and this dual role creates potential conflicts of interest;
- Plan sponsors seek to avoid litigation risk and therefore focus on cost management and aligning with their peers in terms of investment options;
- The EBSA's Field Assistance Bulletin No. 2018-01 advises that fiduciaries must avoid too readily treating ESG issues as being economically relevant to any particular investment choice;¹⁹
- 401(k) plans are dependent on their financial service providers – investment consultants, record keepers and asset managers – who have considerable market influence, while most plans have very limited knowledge and leverage as buyers of products and services.

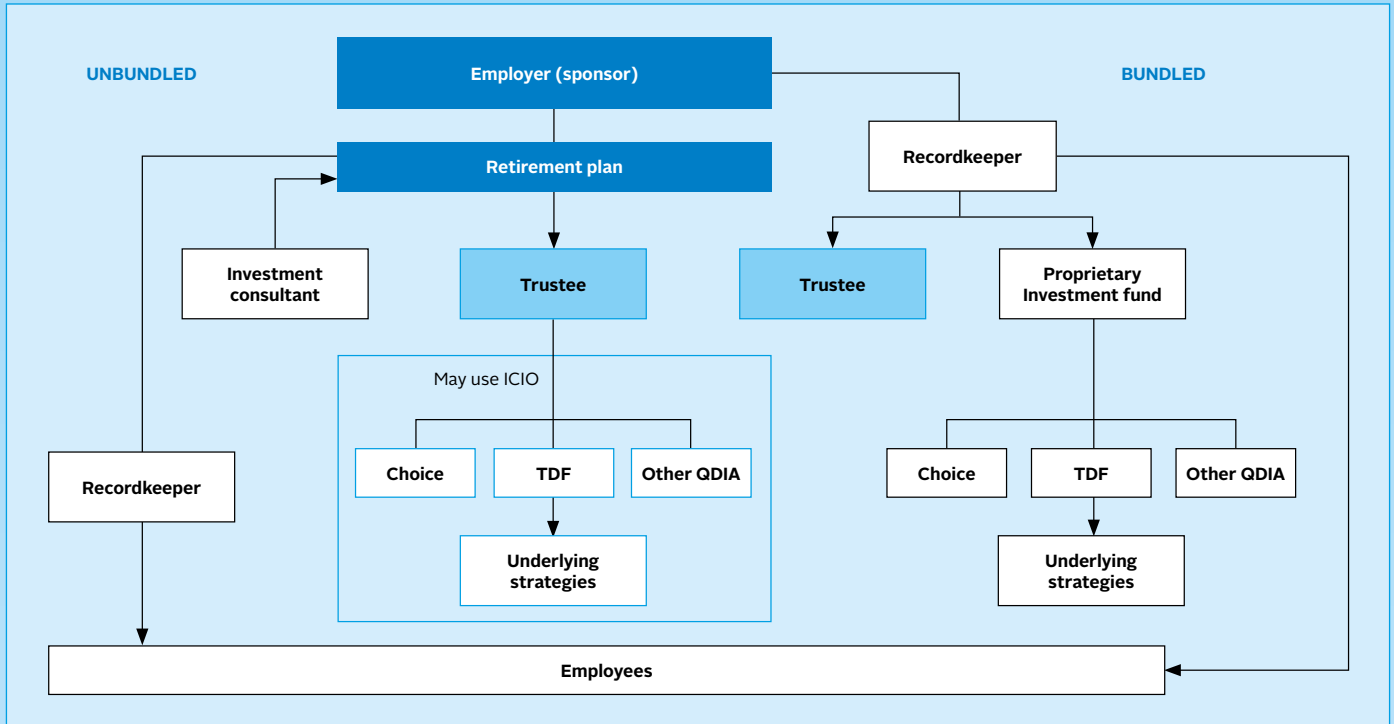
There is a relatively long chain of intermediaries – as shown in the diagram below – between the ultimate owner of the invested assets of a 401(k) plan – the employee – and the actual investment decision. Plan sponsors are ultimately responsible for the design and operation of the plan. They usually use third-party trustees and recordkeepers for day-to-day operations and rely on external advisers in choosing the provider and determining the investment line-up. As more and more plan participants are enrolled into the default option, termed a Qualified Default Investment Alternative (QDIA), the selection of the default asset manager – and, where the QDIA is a TDF or a balanced fund, that manager's selection of underlying instruments – will be the primary determinant of how DC assets are invested.²⁰

¹⁸ A TDF rebalances asset class weights over time; it begins with a higher proportion of stocks for younger plan participants and increases the allocation to bonds – to minimise drawdown risk - as they approach retirement.

¹⁹ EBSA's Field Assistance Bulletin No.2018-01

²⁰ Most new members of private sector workplace DC plans are automatically enrolled into the default option, which is likely to be a TDF or other balanced strategy; 21% of 401(k) assets are in TDFs, rising to 49% of the assets of recently hired participants in their 20s

US DC governance and value chain



While fully bundled services – where the provider delivers administration, record-keeping, investment, and education services to the plan – are becoming less common, many plans remain partially bundled. This gives the record keeper an advantage in getting its funds included in the investment menu. DC assets in proprietary mutual funds totalled \$3.19 trillion at the end of H1 2019, of which proprietary TDF mutual funds were around a quarter of the total.

Efforts to develop sustainable TDFs have been held back by concerns that these might breach fiduciary requirements, following the publication of EBSA’s Field Assistance Bulletin No.2018-01. The guidance in the bulletin – which differs from that of previous bulletins – is that offering a sustainable strategy as a QDIA could breach the duty of loyalty because it could be seen as reflecting the investment policy preferences of the fiduciary rather than those of the participants. The Bulletin suggests that it would not be prudent to offer an ESG-themed TDF as a QDIA unless it is well-documented that its risk-return characteristics are equivalent to a non-ESG alternative option. This makes plan sponsors and their advisers very reluctant to introduce such funds; especially in a highly litigious environment. Further, corporate officers who serve as plan fiduciaries have a strong incentive to avoid any action that may lead to the sponsor being sued. This makes sponsors reluctant to offer any plan features that deviate from the “norm” and incentivizes them to focus heavily on cost.

The Bulletin also widely discourages sponsors from including a sustainable investment option as part of the broader investment menu for employees who do not want to be enrolled into the default. The Bulletin requires an additional level of due diligence and confidence that including a sustainable option would not “require the plan to remove or forego adding other non-ESG themed investment options to the platform”. On average, 401(k) plans offer a menu of 20 funds plus one or more TDFs, but according to the Callan DC index, only 5% of corporate DC plans offered a standalone ESG option in 2018, compared to 43% of public and non-profit plans, while take-up overall was only 1.2%. Savers, when it comes to responsible investment – and other matters relating to their retirement savings – generally do not make active decisions.

The strong cost focus of sponsors, regulators and courts has driven an asset allocation that is highly passive. The passive fund management industry is dominated by a small number of managers, and 401(k) plans are in effect reduced to product-takers. This is best exemplified in relation to stewardship, where 401(k) plans have little influence over the proxy voting practices of asset managers. Often, 401(k) plan members are participants in market-weighted indices, which means they are exposed to a range of sustainability risks inherent to the broader market. Even where there is a high volume of assets, among the largest 401(k) entities, plans tend to behave similarly to smaller plans. Size does not matter.

PERSONAL PENSIONS AND A LACK OF INFLUENCE

More than \$12 trillion of personal pension savings is being managed across the three countries with minimal consideration of sustainability issues. Stewardship of assets is largely left to the discretion of asset managers, with little client oversight.

In personal pension markets, individual savers are faced with complex choices that they are generally ill-equipped to make. They therefore rely on advisers, particularly to make investment decisions. There are low levels of customer engagement and product switching, and limited commercial incentives for providers to introduce new sustainable products or services. From a reviewer's perspective, there is limited data available around service providers, market share and investment products, making it difficult to judge some aspects of the market.

Personal pensions (IRAs, SMSFs in Australia and UK personal pensions) account for more than \$12trn in assets.²² The IRA sector is the largest and fastest-growing segment, with the bulk of its assets coming from rollovers of employer-sponsored retirement plans (often due to portability issues), which may give an advantage to recordkeepers and other service providers associated with these plans.²³ The 10-year CAGR of SMSFs is 9%, but has slowed considerably over the past five years.²⁴ There is very limited transparency and data available on the industry, market players and their investments.

Individual savers in personal pensions do not have the same level of access to portfolio data as institutional clients. In any event, many do not have time and resources to digest and analyse vast amounts of information. Most savers are also not sufficiently educated to make complex financial decisions. Faced with an almost unlimited choice of investment options, many rely on their independent financial advisers (IFAs), which is a fragmented market consisting of thousands of firms. In addition, current regulatory regimes raise concerns over levels of consumer protection. For example, most IFAs in the US are not fiduciaries and operate under a lesser "suitability" standard. Personal pension savers are product-takers – to an even higher extent than 401(k) plans – with little leverage relative to service providers from the concentrated fund management industry.

Participants are disengaged from the process of choosing their product, provider and investments. These are complex choices, and people tend to leave them to their adviser, if they have one, pick a brand they recognise, or choose a standardised product. Cost, a more comparable and comprehensible metric than value or quality, is often the focus. For this reason, sustainability is often not considered, despite increasing interest. Levels of engagement remain subdued during the retirement saving period, evidenced by low levels of product switching. Providers therefore have limited commercial incentive to introduce and promote new sustainable products and services.

²² We do not consider the Group Personal Pension arrangements in the UK in this section as they are organised through the employer

²³ The EBRI found that asset allocation changes significantly when the funds are rolled over from a 401(k) to an IRA, implying that the financial institution receiving the funds has influence over how they are invested (EBRI Issue Brief, November 7 2019)

²⁴ APRA Annual Superannuation Bulletin June 2019

ROLE OF SERVICE PROVIDERS

While their market power and resources in theory mean that asset managers, investment consultants and other service providers are often better placed than retirement plans to drive responsible investment and stewardship, in practice their lack of incentives results in limited execution. This is a key structural challenge that undermines the sustainable credentials of retirement systems.

External managers dominate investment of retirement assets, particularly in the UK and US. The dependence on external managers implies, in turn, a reliance on investment consultants among workplace pension providers: both DB and DC retirement plans use investment consultants to design or validate their portfolio strategies and manager selection, and increasingly outsource investment implementation entirely to fiduciary managers or OCIOs. Recordkeepers, specifically in the US, provide administration services for both DB and DC plans, and may play a larger role in DC plans, providing education and/or investment services in addition to administration, and ultimately influencing fund choices. Asset managers provided recordkeeping services for 30% of 401(k) assets in 2016, and 58% of the assets of plans over \$1 billion.²⁵ Lastly, personal pension savers often use financial advisers to help design their portfolios and use platforms to create wrappers for their investments.

Given the structural challenges to sustainability, external asset managers, investment consultants and recordkeepers are important parts of the equation. They also have extensive resources and influence. However, they appear reluctant to be proactive, because of lack of incentives to do so. In the US, they may bear some fiduciary responsibilities towards plan participants so must be careful not to breach ERISA standards. In the UK, trustees have been slow to demand more of both asset managers and consultants. New reporting requirements mean that trustees and IGCs will have to specify how they incentivise external asset managers to invest sustainably. In Australia, on the other hand, some of the larger super funds are bringing investment capability in-house. Not-for-Profit funds in Australia have established IFM, an industry fund vehicle to achieve scale and pool their influence. Still, they are reliant on external asset managers and to some extent investment consultants.

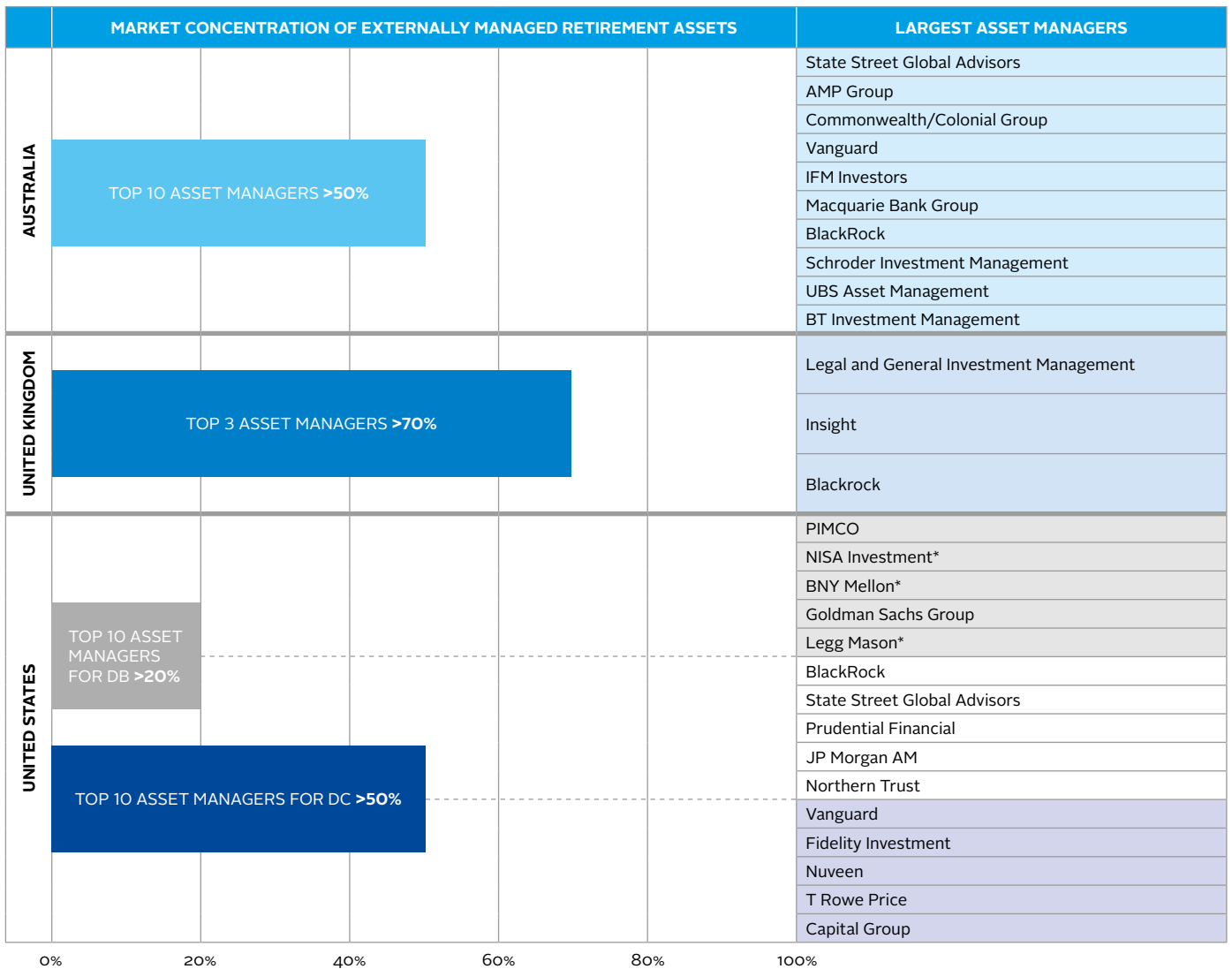
²⁵ The Brightscope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2016

²⁶ Willis Towers Watson, The world's largest 500 asset managers, 2019

ASSET MANAGEMENT

The industry's assets under management have continued to rise steadily over the past ten years, with US firms leading the pack. US asset managers also have the largest market share across the three private retirement systems examined in this report. The structural challenges identified would suggest that the market power of the asset management industry in the investment of retirement savings will continue to increase.

Table 4: Asset management. Sources: P&I The Largest Money Managers (US, December 2018), IPE (UK, August 2019), Australian Managed Funds Industry, FSC/Morningstar (July 2016), PRI signatory database (April 2020).



* Not PRI signatories

The UK retirement asset management market is extremely concentrated, with the top three providers managing over 70% of total AUM.²⁷ In the US, the top 10 asset managers for DB plans are responsible for over 20% of DB assets and the top 10 managers for DC plans for nearly 50% of DC assets.²⁸ Asset managers also provide recordkeeping services, giving them an advantage in offering administration and investment services when assets are transferred to IRAs.

Where retirement plans use external managers to run segregated mandates on their behalf, they can retain a high degree of control over both the shape of the portfolio and the opportunities for engagement associated with their investments. However, retirement plans that invest through pooled funds are usually unable to exercise their ownership rights, and many of the bigger asset managers have poor track records on proxy voting and other aspects of stewardship. Recent research found that the three biggest passive asset managers globally have stewardship budgets that are only 0.2% of the estimated fees they earn from managing equity assets, and that there is no real incentive for them to dedicate more resources to stewardship activities.²⁹ The significant variation between the largest asset managers and, in some cases, poor voting records on sustainability issues are also well-documented.³⁰ In a private retirement system, where the majority of savers, increasingly through passive funds, rely on these firms, this is a major issue. Notably, Australian super funds – which have more actively managed investments – are insourcing a growing proportion of their asset management. In parallel with this trend, they are increasingly adopting sustainable investment activities and undertaking stewardship of their assets. A few larger plans in the UK and US – mainly public plans – with internal investment teams and sufficient resources are also adopting this model.

Given that the majority of private retirement segments examined in this report – more than half of global retirement assets – rely heavily on the fund management industry, the practices of the largest firms – which also hold the majority of assets – is vital to the sustainability practices of private retirement systems.

INVESTMENT CONSULTING

Investment consultants advise on the allocation of trillions of dollars worldwide, and the market is dominated by a small number of firms. In the US, the top 10 consulting firms account for 80% of institutional, tax-exempt assets under advice (\$24 trillion) and the top 20 for over 90%.³¹

There are five international firms in the top 10, and they are beginning to transfer knowledge about sustainability from other markets to the US, although they remain cautious in recommending ESG strategies in the current regulatory and legal environment. The consulting market in the UK remains relatively competitive. However, we have recently seen more concentration with Aon, the largest consultancy firm, announcing plans to buy Willis Towers Watson, the third largest. Mercer, the second-largest firm in terms of revenue, in 2019 acquired JLT Benefit Solutions, a top 10 investment consultant. Following these developments, Mercer and Aon/WTW have an estimated combined market share of over 40%.³² Investment consultants in the UK advise on more than \$2 trillion of assets. In Australia, two local and two international firms dominate the market, but the higher degree of investment insourcing means that the bigger super funds are less reliant on consultants.

Investment consultants are instrumental in determining the degree of sustainability embedded in the investment strategies of the retirement plans they advise. They provide a range of advisory services, from funding decisions, to asset allocation, manager selection, platform recommendations and fund options and reporting processes. They frequently train sponsors and trustees on approaches to investment and emerging investment trends. They are generally a recognised source of authority and knowledge. The influence of consultants is especially marked in the OCIO and fiduciary management markets, which are relatively small but are the fastest-growing areas for consulting services.

In the UK, the CMA found that although retirement plans accounted for 90% of consultants' revenues, most trustees did not engage with them. In addition, consultants usually do not include investment strategies in their watch lists until they have a three-year track record, and there are still a relatively small number of sustainable investment funds that meet this threshold. This has been a particular barrier for the adoption of new TDFs focusing on sustainability by 401(k) plans in the US.

As the PRI has previously found, the investment consulting sector – despite pockets of excellence – is generally failing to incorporate ESG considerations into standard advice templates.³³ Regulatory pressure to do so is rising. However, further efforts are required if consultants are to make a difference in promoting sustainability in private retirement systems.

27 IPE 30 August 2019

28 P&I online, company websites

29 Index Funds and the Future of Corporate Governance: Theory, Evidence, and Policy, Lucian Bebchuk and Scott Hirst, 2019

30 InfluenceMap, Asset Managers and Climate Change: How the sector performs on portfolios, engagement and resolutions, 2019; ShareAction, Voting Matters: Are asset managers using their proxy votes for climate action?, 2019

31 Source: P&I Special Report, note includes non-pension assets

32 See also Professional Pensions online, 19 February 2020

33 [PRI, Investment Consultant Services Review, 2017](#)

SEVEN RECOMMENDATIONS FOR POLICYMAKERS AND THE INDUSTRY

Given the challenges to sustainability, policymakers should pay closer attention to retirement system structure and policy and adopt measures, including fund consolidation, that promote the growth of strong and influential retirement plans with scale.

Plan boards and managers should be set up to be responsible investors, active stewards and allocators of capital to economic activities with desirable social and environmental outcomes. Universal asset owners in particular – such as large retirement plans – will play a key role in influencing how systemic sustainability issues are addressed by other actors. The presence of such entities, and their relative weight in the financial industry, will be important for the general functioning of the system.

The private retirement sector is an important part of the global financial system, both in terms of size of asset pools, but perhaps more importantly because of its influence.³⁴ However, too often, existing policies and structures disempower the institutional vehicles that could otherwise direct asset managers, investment consultants and other service providers to deliver good outcomes for beneficiaries.

Often misaligned incentives, principal-agent issues, and a lack of leverage and direction from retirement plans are barriers to sustainability. Essentially, when the structural landscape shifts and the relative share of influential retirement plans diminishes, asset managers and other service providers will have fewer incentives to address systemic sustainability issues. This will impact the sustainability of the financial system overall. Smaller retirement plans and retail investors – including personal pension savers – with limited resources and bargaining power will be particularly disadvantaged.

To address the system challenges identified in this paper, the PRI proposes the following seven preliminary interventions.

Policy makers and regulators:



Embed sustainability in retirement system design and align retirement and pension policy with sustainability policy objectives.



Prioritise fund consolidation in the private sector retirement system.



Require retirement plans to incorporate sustainability issues in investment strategies and decisions, or at least remove barriers.



Ensure, through fit and proper governance arrangements, that plans include the notion of sustainability in their duty to act in members' best interests.

Industry bodies (including the PRI):



Facilitate further international and domestic coordination on systemic sustainability issues between universal asset owners.



Support retirement plans of various types and sizes with education, tools and collaborative engagement facilities.



Foster engagement with asset managers and service providers to ensure that their policies, processes, products and services meet the sustainability needs of their clients and beneficiaries.

The PRI will further develop these interventions in collaboration with partners, nationally and internationally, and we welcome feedback from policymakers, academics and industry groups as we move the agenda forward.

³⁴ Universal owners own the externalities of their portfolio companies as they hold a cross-section of the economy through diversified, global and long-term portfolios; they have an interest in reducing the economic risk presented by sustainability challenges to the market to improve financial performance overall.

DEFINITIONS

These are PRI's own definitions which are based on OECD private pensions classification and glossary.

Retirement plan/Pension scheme: A legally binding contract having an explicit retirement objective or where the benefits are intended to be paid once the beneficiary is older than a legally defined retirement age.

Private retirement system: Includes retirement plans and pension schemes that are not part of the social security or other statutory pension programme administered by the government. Private pension schemes and retirement plans may be administered directly by an employer acting as the plan sponsor, by a private sector pension provider or other financial institution.

Occupational/workplace retirement plans and pension schemes: Access to such plans is linked to an employment or professional relationship between the plan member and the entity that establishes the plan (the plan sponsor). Occupational plans may be established by employers or groups thereof (e.g. industry associations) and labour or professional associations, jointly or separately. The plan may be administered directly by the plan sponsor or by an independent entity.

Personal pensions: Access to these plans/schemes does not need to be linked to an employment relationship. They are established and administered directly by a pension fund or other financial institution without intervention by employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans.

Defined benefit (DB): Plans that pay out benefits that are fixed according to a predetermined formula, which is based on factors such as the beneficiary's wages and length of employment. The sponsor is responsible for ensuring that the plan has sufficient assets to meet its liabilities.

Defined contribution (DC): Plans in which contributions are fixed but benefits are not. The beneficiary builds up an individual retirement fund that depends on the level of contributions and the quality of the plan governance.

Funded pensions: Occupational or personal plans that accumulate dedicated assets to cover the plan's liabilities (future pay-outs). This contrasts with pay-as-you-go pensions in which pay-outs are financed from current contributions (private pensions are usually not allowed to operate on a PAYG basis, but state pensions may do so).

CREDITS

AUTHOR:

- Nikolaj Halkjær Pedersen, Senior Specialist, Sustainable Markets, PRI
- Morgan Slebos, Director, Sustainable Markets, PRI
- Emmy Labovitch, Independent consultant

EDITOR:

- David Wigan

DESIGN:

- Will Stewart, PRI

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org



The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org



United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

