Minister for Pensions Guy Opperman's keynote speech to the PLSA

Well, thank you, Nigel, and thank you to the PLSA generally, and all of you for listening in, and it is a great privilege and honour to do so. I'll take [being called] 'dynamic' every day of the week, as it's not what politicians are normally referred to I can assure you. And the long and short of it is, I cast my mind back to 12 months ago when we all gathered in Edinburgh, and obviously that was pre pandemic, it was also pre the Pension Schemes Act, and prior to us introducing TCFD, and so much more as part of the brave new world that is pensions, which I'd like to think that we are driving forward and the UK is genuinely leading the way.

So as you know, the Pension Schemes Act signed by Her Majesty this year, is a transformational piece of legislation. It introduces a raft of measures as Nigel has outlined and as others will be speaking on today, but I believe genuinely it takes pensions and makes them safer, better and greener.

And, obviously, I speak to you from rural Northumberland and if by any chance we lose the Wi Fi, I will be blaming the government like everyone else and if you see or hear a frantic woofing, that is my small Labrador puppy, who is going to be extremely upset at being deprived of my presence, and hopefully won't do the intervention it did on a recent zoom call I did where it literally jumped at the camera.

So the Act, as you know, brings forward a completely different approach on so many different levels, but particularly in terms of the investment approach that we are looking for organisations to take. And we believe as we emerge from the pandemic and the economy reopens, planning for the future and effective management and protecting members' savings will be as important as ever.

I believe passionately that climate change is the defining issue in the 21st Century. And I and many other governments are now committed to delivering net zero in support of the Paris Agreement. I believe that's why we have managed to lead, you know, we are the first country in the world to legislate for the TCFD, for example, and the department has done much work on managing climate risk, supported by many stakeholders and Nigel is right to raise the changing climate report of the PLSA and the pensions climate risk industry group who have done good work as well.

I think the key phrase for me is when Mark Carney said that "pension funds are on the road to making sure that every financial decision takes account of climate change". I believe that there is not a single trustee now working who isn't alive to the risk of climate change and starting to take action. Certainly, if you are a trustee, and you are not alive to the risk of climate change, and you are not taking action, you need to take a good long, hard look in the mirror.

So as reported by Corporate Adviser's recent report, 10 out of the 17 leading DC providers have now set net zero targets, and 12 of the 17 providers use ESG screens, or tilts in their default investments, which is more than twice the number who did so two years ago, and there is no doubt there is a sea change in ESG investing.

I believe, however, that we have to go further, we have to address climate change risk in pension investment, which is why our consultation on mandatory TCFD, and our regulations which we intend to bring into force, we will lay them in June and bring them into force in October, are a key part of that. And we will be the first country in the world, as we go to COP26 in Glasgow in November, to be able to turn around and say, look, we have done TCFD in law, we've done it in regulations, and this is the right way forward.

Now, the data that trustees receive to set their strategies needs to get better, that is quite clear. That means asset managers across all markets, public, private, debt and equity, cannot just say they do not have the perfect information or are asking clients to wait another five years. They need to start spending their resources and their modelling capabilities, which are genuinely very good, to measure and then report the quantitative hit to the products they sell. Government also needs to send stronger signals, whether that is the FCA or government more widely, which we will do over the coming months with a net zero strategy, before the COP26 summit in November. Now, the disadvantages that exists for all trustees who do not act are significant, and they will be left with holding investments that no one else wants at the end of this journey. But I'm clear in my view, that that does not mean to say, in any way, I support a divestment approach, it is utterly the wrong way forward and it is not the way that we're trying to shape this market.

Now over the past decade, DC scheme investment strategies have traditionally been a blend of public equity and corporate bonds, appropriate for a maturing market, and that market is now changing, and it is well established, and schemes need to consider innovating their portfolios. And we've been requested without a shadow of a doubt, as a department, to help that innovation happen.

So not only does that mean future proofing future schemes, and considering obviously climate and other material ESG practice, but venturing into what is currently the unknown for many trustees, less liquid alternative assets. Now, some schemes have made great strides in this direction, and I commend them. But the giant schemes of Canada and Australia are building the roads, the wind farms, the Kings Crosses and the various other parts of the infrastructure, to the benefit of their own savers. And I want to see the UK doing the same and leading the way. The most significant barrier to DC investment in this way, is the sheer number of members trapped in smaller, poorly performing schemes. So it is not good enough in my view that members are held back from accessing these type of investments because of historic choices and there are issues genuinely about value for money for members. So that's why we're moving forward the regulations to require all schemes with less than £100 million in assets to improve or wind up. I'm exploring ways to quicken the pace of consolidation for other schemes as well. At the same time, I’m also exploring regulatory changes to ensure that the fees that investors are often required to pay do not put schemes in a position where they breach the charge cap. Smoothing performance speeds over the course of five years will provide many investors who are unsure about investing in such funds with a confidence to make that leap.

However, the charge cap does remain an important feature of the DC pensions market and serves as a safety net for members. It protects members from unnecessarily high fees that eat away excessively their savings, and we have to bear in mind though, that the average large DC master trust is charging its members 0.4 per cent with a cap at 0.75 per cent.

Rather than move a cap that schemes are using barely half of, I call on schemes to use the headroom that they’ve created themselves. If spending more does bring higher returns, particularly in the long term, then take that argument to the members that you have and justify any mild increase in charges, in the name of greater retirement income. It seems to me that is a perfectly legitimate and robust case to be made.

The UK is genuinely an incredibly attractive destination for foreign investment in our infrastructure, our property market, our businesses, our fintech that emerge from our world leading universities. And it is time that the level of domestic private finance in these areas are matched, and I believe pension schemes can play their part to the members’ benefit. And going further, our work will help pension scheme governance bodies offer value for money and deliver a step change in explanation to pension savers of what they have.

But I do stress this is a two-way street. We are legislating and changing the approach because we think it is the right thing, but it is also something that we’re doing because many schemes have asked us to do this. And we want to try and give clarity, and if I wasn’t clear previously, I’m trying to make that point today as to the direction of travel and how it is we want to try and help schemes.

I want to talk briefly about CTI templates and cost transparency and clearly achieving greater value for money for members requires the sharing of consistent standardised and transparent cost information. The more standardised and detailed information that schemes can obtain, the better equipped they will be to identify where the costs are being incurred and make detailed comparisons.

I think the key to achieving better outcomes is the valuable work of the PSLA sponsored Cross Transparency Initiative, the CTI, which developed the disclosure templates that are in use by many trustees and investment managers today.

Last year, we did a review of the default fund charge cap and standardised cost disclosure. This review enabled trustees, providers and other interested groups to share their views on how cost disclosure can be improved. I’m pleased to say that many of those who responded said that they supported the use of a single cost disclosure tool, the CTI templates in particular.

However, respondents told us that more time should be given to those schemes not currently using the templates to adopt them.

So I want to see greater transparency and standardisation. And I will continue to encourage more trustees and investment managers to start using CTI templates. But I may take further action in the future if this voluntary approach does not deliver the desired results.

Now, a similar argument could previously be made in respect to simpler statements. I am passionate about trying to simplify the pension system, and it seems to me that I'm already doing that with the progress of this dashboard, by making sure that we can access our pensions online, and in relation to written statements.

I'm utterly satisfied that the traditional pension statements, some of which have been improved, I do acknowledge, is genuinely not the way ahead. So we are building on the participation in automatic enrolment, of the 10.5 million people who are involved in automatic enrolment, but we're also understanding there's a growing likelihood that people will have a multitude of different jobs. Millennials are on average likely to have 11 to 12 different jobs at the very, very least and therefore multiple pension pots and multiple annual pension statements.

Enabling people to see more clearly and understand their pension savings and to cut through the jargon and the complexity that too often gets in the way is utterly crucial. That's why I want to ensure that one simpler statement is the key pension related communication that is received by most people and that is more engaging. And I genuinely believe this will not only help the savers, but will also help the companies because when people have a greater comprehension of the product that they are being sold and they're participating in, in my view, there's much greater likelihood that they will also participate to a greater extent.

Now my officials also are working on the details of the regulations to make this happen, which we will consult on shortly and I'm grateful to the constructive input the industry has been making to this process. They're just one way, in my view, that we can improve our understanding of people's engagement with their pensions.

But I also want to try and build on one other thing, which is the pension statement season. Now some organisations, famously the Pension Geeks, who I have got to know very well, and Scottish Widows and others, have been doing a pension statement season, going on the road, trying to explain the situation to various people. I believe the pension statement season, a short period each year where people are receiving their statements will help reinforce the normalisation of workplace pension saving, as achieved as a result of automatic enrolment. And my ambition is genuinely to create a national conversation about the importance of pension saving, turning up the dial on engagement in a way that, frankly has not been done. And you may have heard me say that my holy grail and all this is I want people to be walking into a pub, during the statement season, grasping their statement and saying, 'well, I've got mine, what have you got?', and actually having a conversation in a pub, in a way that we all do, when obviously, the pubs reopen, we often do in respect of everything else in normal life, but we certainly don’t do in relation to pensions.

We’re working on this. And we’re setting out my approach later in the spring or beginning of the summer. Clearly, small pots is an ongoing piece of work. I’m grateful to everybody who helped with the Small Pots Working Group, we’re doing a lot more work with the PLSA, and the wider industry, to understand the scope of the problem, but also to try and see how we can take forward the working groups recommendations. I look forward very much to the upcoming discussion soon. I just genuinely believe it is imperative that we come up with solutions that work for consumers and work across the market.

And finally, I want to do a call for action on stewardship, which is something I’ve been talking about, I was on a call earlier on with Goldman Sachs, but I’m trying to talk about a lot to asset managers, but also pension scheme trustees and investment consultants. So I just, I oppose totally knee jerk or blanket divestment and it seems to me that the way ahead is proper stewardship, and you don’t end your savers exposure to climate risk by selling the stock to someone else and passing the problem on.

It seems to me, you cannot have a passionate belief in pensions, which I do, and the acceptance that pensions is about saving for the long term, if you don’t accept that climate change is the defining issue that is going to determine the long term, and that therefore how you hold stocks that are influencing this is utterly key and your role going forward is utterly key.

It’s always been important, but it seems to me that the role of pension schemes, trustees and asset managers over the next 5 to 10 years will be utterly vital in the passage of this country, and the entire world, to net zero. And I just, I would urge everybody, to get involved in a greater way with stewardship, I would really hope that there will be more than the three [climate-related] resolutions that were filed across the 1,000 UK listed firms recently, and I really hope that we get a better situation, in terms of how it is stewardship is taking place.

Some say this is too difficult, I don’t agree. The minimum threshold to file a resolution is 5 per cent, and there are asset managers at the conference who hold that amount and many of them single-handedly and never filed any resolution anywhere. This year, the only climate resolution so far concerns the decarbonisation of HSBC, and trustees should be asking their fund managers how they plan to vote, you have the power, there is no question you do.

And of course, I accept there is very important and widespread engagement. But the bottom line is that engagement alone is not enough. And so, we found through the analysis by the Transition Pathway Initiative last year, that no oil or gas firm had ever yet set up a fully Paris aligned target let alone begun that. Now, they’re on a journey, but we need to engage with them as they go on that journey and that to me seems to be the crucial way ahead.

So in line with the PLSA’s ‘Change in Climate Report’, trustees need to start to use voting policies as a consideration in selecting managers and where their voting policies are weak they need to demand change, and then demand the ability to set their own voting policy as a condition of appointment, including in pooled funds. So I’ve established a task force on pension scheme voting implementation, to examine these issues and to make recommendations to address them before COP26.

So, much to discuss, I think there’s going to be greater consolidation, we are acting on TCFD and climate change. I genuinely believe we’re doing great work on cost transparency, simpler statements, real stewardship. I am passionate about this portfolio. It’s a job I asked to do. It’s a job I love doing. I genuinely believe we can be party to something which is causing the greatest degree of positive change this country has seen for some considerable time. Thank you very much.