

## Pension Funds

**It is estimated that pension funds account for at least a fifth of share-ownership on the UK stock market and a massive 40% globally<sup>1</sup>. You may not know it, but being a contributor to a pension fund makes you a shareholder, albeit on a small scale, in the companies in which the fund invests.**

But do you know what these companies are? Might they be companies you don't approve of – those involved in the arms trade or with poor labour or environmental standards, for example?

### **How your pension works**

The contribution that comes out of your monthly pay cheque, or that you invest independently, is used by your pension fund manager to buy shares in companies listed on the stock market as well as to invest in cash and bonds. When selecting who to invest in, pension fund managers have a choice of thousands of investee companies operating across a huge range of industries both in the UK and globally. But do they ensure that the companies they invest in conform to high green, ethical and governance standards?

In July 2000, the UK government enacted a law that requires occupational pension funds to disclose whether or not they incorporate any social, environmental or ethical assessments into their funds' investment strategies. In other words, occupational pension funds are legally bound to state their environmental, social and governance (ESG) practices and policies. Funds are not obliged to incorporate these elements however, just to state whether they do or they don't. To find out what's in your pension scheme's Statement of Investment Principles (SIP) you can simply request a copy.

### **Different types of pensions**

In general terms a pension is a long-term savings vehicle which offers significant tax benefits.

#### ***Basic State Pensions***

These are paid for by National Insurance Contributions (NICs) and the taxes of those in work. The amount you receive will depend on how many 'qualifying years' you build up before state pension age.

#### ***Occupational pensions***

These are set up by an employer for their employees. In 'contributory' schemes both the employer and employee put money into the fund. In 'non-contributory' schemes, only the employer makes a contribution.

## ***Personal pensions***

These are where an individual has an agreement with a pension provider to save money for their retirement. Individuals pay a regular and/or lump sum to a pension provider, who invests the money on their behalf.

## ***Self-invested personal pensions (SIPPs)***

SIPPs are a form of personal pension scheme that allows investors to choose and manage your own investments and are therefore more suitable for people with financial experience. They may have higher charges than other personal pensions or stakeholder pensions.

## ***Stakeholder pensions***

These are a type of personal pension where an individual has an agreement with a pension provider to save money for their retirement. You can make regular, or lump sum, contributions whenever you like. Your employer can also make contributions. Stakeholder pensions usually offer a range of investment funds, with differing degrees of investment risk and potential investment growth.

## **Your next steps**

By adopting ESG policies, pension funds can help to persuade companies to improve their green and ethical behaviour. As a pension scheme member you have a say in how your money is invested. You can help ensure that the fund's decisions more accurately reflect the interests of its membership – to whom it is ultimately accountable.

Log on to [YourEthicalMoney.org](http://YourEthicalMoney.org) to find information on how to contact your scheme and what ESG-related questions to ask it in our guide [Next Steps - Pensions](#).

<sup>1</sup> <http://www.responsible-investor.com/home/article/nsfm/>

**As a contributor to a pension fund you are a shareholder in the companies it invests in – have your say.**