PENSION SCHEMES BILL 2024-25

Committee Evidence, 8 September 2025

Summary

- The Pension Schemes Bill promises to deliver substantial changes to how the UK's multi-trillion-pound pension industry invests our collective retirement savings and supports national growth.
- However, it **does not tackle the biggest threat to our security and prosperity in retirement: the impacts of climate change and nature destruction**. UK pension funds are significant investors in fossil fuel assets and companies linked to deforestation, which threatens the long-term security of savers, growth prospects for the UK's economy, and the stability of the wider financial system.
- Amendments that link the Bill to the UK's net zero ambitions and climate and nature targets could significantly strengthen the legislation and must be considered by the committee.

Context: pensions reform and the Pension Schemes Bill 2024-5

The UK pensions system, valued at around £3 trillion, is going through its biggest reform in 20 years. How this money is invested matters for pension savers' security in retirement, as well as the economy and the environment.

The Pension Schemes Bill is the first legislation of this reform programme. Its primary aim is to boost investment in UK productive assets, largely by accelerating the consolidation of smaller pension schemes into larger funds, which could have the capacity to invest in longer-term assets such as infrastructure. This is a welcome shift to unlock capital for national growth.

However, the Bill, and the government's broader reform process, overlook the greatest risks to pension savers and the UK economy: climate change and nature destruction. UK pension schemes continue to hold billions in fossil fuel companies (£88bn),[1] including those involved in new coal, oil and gas exploration, and in companies linked to deforestation (£300bn).[2] Over 85% of leading schemes still lack credible climate action plans,[3] with many relying on financial models that markedly underestimate the economic impacts of both global warming and nature degradation.[4] There are also concerns that measures in the Bill, including consolidation and the value for money framework, could undermine the progress some leading pension funds have made towards managing climate risks well.

The risk to pension savers and the economy

The pension system as a whole remains exposed to the systemic risks posed by climate change and nature loss. These risks threaten the long-term security of savers, growth prospects for the UK's economy, and the stability of the wider financial system.

Climate breakdown threatens the future economic security of pension savers. Recent analysis by the Institute and Faculty of Actuaries warns current climate policies are steering us to 3 degrees of warming – an outcome that could shrink the global economy to half its current size.[5]

Climate change also puts pension savings at risk. Research shows that UK pension portfolios could face valuation declines of 20-30% by 2040 under plausible climate scenarios.[6] Fossil fuel-heavy holdings are especially vulnerable and may become 'stranded' when policies and practices make them uneconomical to extract. It was recently estimated that over £15 billion in fossil fuel holdings across UK pension schemes could be stranded in the next 15 years.[7] The Bank for International Settlements has also warned that climate change could create future financial crises.[8]

The International Energy Agency and leading academics have warned that there is no scope for additional fossil fuel production if the world is to stay within safe climate limits. [9] For pension savers to have a secure future, it will therefore be necessary for investments in fossil fuels to be phased out at pace, especially in high-risk areas, including exploration and expansion.

As the Chancellor has recognised, all financial sector regulation and legislation should integrate concern for climate and nature.[10] **The Bill must rise to that standard**. A key part of this will be recognising the need to phase out destructive investments, following the lead of some pension funds in, for example, preventing investments in thermal coal. Questions of climate- and nature-related risks cannot be siloed within the consultation on transition plan requirements (the outcomes of which are unlikely to be implemented until the next parliament, and for which the government does not yet have any regulatory powers).

Missed opportunity for sustainable growth

The government has a once-in-a-generation opportunity to support UK pension funds to significantly increase investment in clean energy, green infrastructure, and the green technologies and jobs of the future. If the state and pension funds work in strategic partnership, fairly sharing risk and reward, then this would drive long-term sustainable growth and see UK pension holders benefit from stronger risk-adjusted returns.

There is a strong economic case for green pensions reform. As it stands, only 4% of pension assets are invested in climate solutions[11] despite the net zero economy demonstrating a 10% growth rate in 2024,[12] showing its potential to deliver for both the economy and pension savers.By helping to fill the £50 billion gap in funding for the transition to a green economy,[13] pension reforms could also help the government achieve its mission to turn the UK into a clean energy superpower and lower energy people's bills, while contributing to broader climate commitments.

As a result, the Bill could be significantly strengthened by incorporating sustainability as a core principle. Despite the opportunities, which are widely recognised by the pensions industry itself, the government has so far failed to ensure that the legislation would lead to more pension capital being channelled to the green economy.

The Better Pensions Coalition is an alliance of civil society groups and trade unions calling on the government's pension reforms to:

1. Deliver decent pensions for all;
2. Fund a just transition to a thriving low-carbon economy; and
3. Phase out investment in fossil fuels, deforestation and other destructive assets.

In April 2025, the coalition launched a petition and growing campaign, supported by celebrities including White Lotus star Jason Isaacs, national treasure Stephen Fry, and comedian Aisling Bea.

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