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# **SUSTAINABILITY REPORTING ON PENSION SCHEMES:**

**THE PATH FORWARD**

# SUSTAINABILITY REPORTING ON PENSION SCHEMES:

## The Path Forward



In an era marked by growing awareness of environmental, social and governance (ESG) considerations, sustainability reporting has emerged as a crucial aspect for organisations, investors and stakeholders.

For pension schemes, particularly, integrating sustainability into their reporting frameworks is more than just a regulatory requirement; it's an ethical imperative that aligns with the long-term nature of their commitments to retirees and the society.

## Understanding Sustainability Reporting in Pension Schemes

Sustainability reporting involves disclosing how an organisation's operations impact the environment, society, and governance structures. For pension schemes, this reporting provides transparency on how investments are managed concerning ESG factors, outlining efforts to balance risk and return, and positive social impact. The concept is about ensuring that assets grow responsibly, without contributing to environmental degradation, social injustice, or unethical governance practices.

The Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainable Accounting Standards Board (SASB) are among the key bodies offering guidelines that help organisations standardise and communicate sustainability practices. In the pension sector, this translates to reporting frameworks that give investors and beneficiaries insights into how their funds are invested and the impact of those investments on ESG concerns.

# Why Sustainability Reporting Matters for Pension Schemes

Pension schemes represent a considerable pool of capital, and their investment strategies have long-lasting impacts. Reporting on sustainability serves several key purposes:

1. **Risk Management:** Sustainable reporting provides a way to assess and manage risks tied to climate change, resource depletion and social inequality. For pension schemes with long-term investment horizons, failing to address these risks could mean exposure to financial losses due to regulatory fines, stranded assets or reputational damage.
2. **Alignment with Beneficiaries' Values:** Modern beneficiaries are increasingly concerned about the impact of their retirement savings on the environment and society. Transparency around sustainability fosters trust and assures members that their contributions are invested responsibly.
3. **Enhanced Investment Performance:** Studies have shown that ESG - oriented investments tend to outperform in the long term. By focusing on sustainability, pension funds can potentially generate better risk-adjusted returns for members, benefiting both the environment and the portfolio.
4. **Regulatory Compliance:** Governments and financial regulatory bodies are implementing stricter rules on ESG disclosures. For pension funds, these rules necessitate the integration of sustainable practices into investment processes to ensure regulatory compliance and mitigate potential legal risks.



# Key Aspects of Sustainability Reporting for Pension Schemes

To implement meaningful sustainability reporting, pension schemes should focus on several core areas:

- 1. Climate Impact and Carbon Footprint:** Reporting should detail the environmental impact of portfolio investments, focusing on carbon emissions, resource usage and environmental degradation. The TCFD's framework is instrumental in disclosing climate-related risks and opportunities.
- 2. Diversity, Equity and Inclusion (DEI):** Transparency around DEI practices within the organisations that pension schemes have invested in is essential. This includes reporting on gender diversity, wage gaps and inclusive hiring practices.
- 3. Investment in Sustainable Projects:** Pension schemes can highlight investments in green bonds, renewable energy and other sustainable industries. Such investments contribute positively to society and align the portfolio with ESG principles.
- 4. Governance:** Effective sustainability reporting must also include governance aspects, such as board composition, transparency and anti-corruption measures. Strong governance is essential for mitigating operational risks and ensuring accountability.
- 5. Social Impact:** Pension schemes can measure their social impact by looking at job creation, fair labour practices and support for community development initiatives through their investment choices.

## Implementing a Robust Sustainability Reporting Framework

- 1. Set Clear Objectives and Goals:** Pension schemes should define clear sustainability goals, such as reducing investments with carbon emissions in their portfolios by a certain percentage or increasing investments in renewable energy sectors.
- 2. Leverage Technology:** Advanced tools and analytics can facilitate accurate sustainability reporting. By adopting software that track and report ESG metrics, pension schemes can gain real-time insights and streamline compliance with reporting standards.

### 3. Adopt Standardised Reporting Frameworks:

Aligning with recognised standards like the GRI or TCFD will enhance comparability and credibility. This alignment is crucial for attracting ESG - conscious investors and beneficiaries.

### 4. Engage Stakeholders:

Open communication with members, regulatory bodies and industry stakeholders fosters transparency and accountability. Pension schemes can establish dedicated sustainability committees to oversee these engagements.

5. **Continuous Improvement:** Sustainability is a dynamic field, and pension schemes should continuously assess and update their reporting practices to reflect new standards, regulatory requirements and societal expectations.



## Challenges in Sustainability Reporting for Pension Schemes

1. **Data Availability and Quality:** ESG data collection and verification can be challenging, especially for smaller schemes. This issue can be mitigated by working with data providers specialising in ESG metrics.

2. **Balancing Financial Performance with Sustainability Goals:** Pension schemes are tasked with generating strong returns for retirees. However, achieving this balance while adhering to sustainable practices can be challenging, especially during market downturns.

3. **Changing Regulatory Landscape:** With ESG regulations evolving rapidly, pension schemes must stay informed and agile in adapting to new rules to avoid penalties and maintain compliance.

# CONCLUSION

## The Way Forward for Sustainable Pension Schemes

As pension schemes embrace sustainability reporting, they contribute to a more resilient, transparent and socially responsible financial system. These schemes are positioned uniquely to promote change, given their long-term investment outlook and considerable influence in financial markets.

By committing to transparent sustainability practices, pension schemes can generate financial returns that are aligned with societal and environmental well-being, ensuring a positive legacy for future generations of retirees.



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