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DC members prepared to pay for ESG pension power

➤ **Despite the tightest squeeze on household budgets in decades,¹ most defined contribution (DC) pension savers would pay more to see their funds supporting environmental, social and governance (ESG) investments – once they know pensions can be used in this way**

In our latest investigation into the ESG views of our DC pension members,² we expected to find that the cost-of-living crisis was making savers more cautious with their cash. Yet, we found that most would pay more for investments which could make them less vulnerable to long-term financial risks.

For instance, of the 3,634 DC pension members in accumulation that we interviewed in the UK, 65% said the rise in petrol, gas and oil prices had made them more interested in replacing oil and coal with sustainable energy sources such as wind or solar farms. Meanwhile, three-quarters (74%) said rising prices had made them think more about sustainable food production.

Most DC pension members also seem to appreciate the link between burning fossil fuels and global warming so that almost nine in 10 (87%) want their pensions to significantly reduce exposure to fossil fuels.

Awareness of net zero continues to grow (85% of our respondents said they'd heard of it), and once they knew what it meant for pensions to have net-zero targets, 70% of our DC members said they'd support them – as long as the targets didn't affect the financial performance of their fund.

Similarly, despite a conclusive 72% of savers supporting investments in infrastructure projects to increase

renewable energy sources such as wind farms or solar parks, well over half (56%) would only back paying higher fees if there was no long-term impact on their pension pots.

It's understandable that given the cost-of-living crisis, there remains some nervousness among members around taking any step that might have unintended consequences for the long-term performance of their pension pots. However, we found that knowledge is power when it comes to understanding how pension investments may offer a

way of influencing some events – and mitigating risks – that members might previously have considered beyond their control.

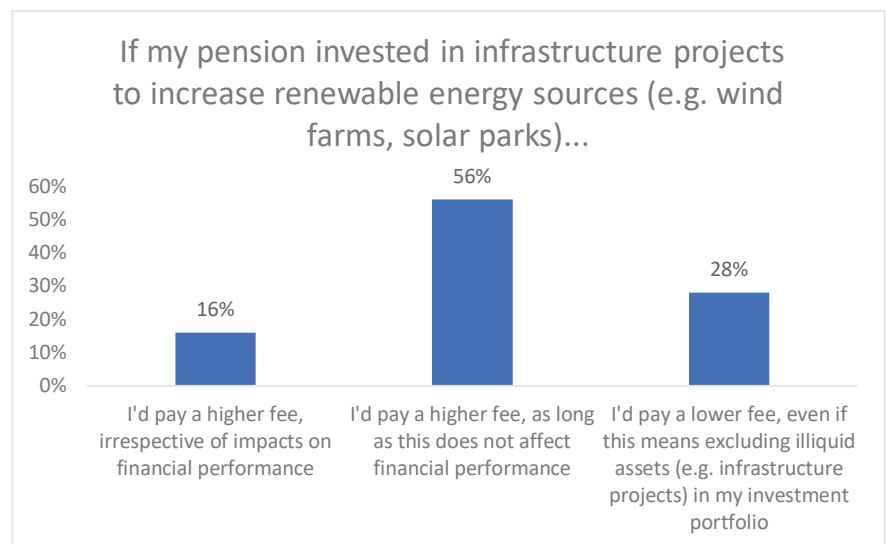
So, while it's by no means universal, we believe there is slightly more confidence in the potential of ESG investing. For instance, 55% of members say they think funds with net-zero targets will do better than those without, while 57% think pension funds that invest in green finance will perform better financially than funds which don't.

As one of our youngest members put it: *"I think in the long term it will work out as financially better (to invest in sustainable infrastructure projects) ... Whereas, you know, we will run out of fossil fuels eventually. And while they might be more profitable in this moment, they'll just be gone eventually, and they won't be profitable 'cause they just don't exist."*

Generation Z (aged 22), Male

Raising awareness raises engagement

It seems that the global economic and political shocks of recent years could be feeding into pension members' calculations around balancing the need



Source: Legal & General Investment Management survey, June 2023, showing views of 3,634 defined contribution workplace pension members in the accumulation phase in the UK.



to build the best possible retirement income with looking after the world in which they'll grow old.

Once members understand how their funds link to wider environmental and societal issues through the power of shares, most of our members became more interested in their pensions: 84% said they'd have wanted to be more involved in their pensions if they'd known it was being used to drive positive ESG changes.

This isn't just good in terms of member engagement, it's good for the companies in which pension providers invest and for the providers themselves.

For instance, when we showed our members case studies of how we at

LGIM have worked with companies to encourage them to do better on issues such as reducing carbon emissions or paying the real living wage to their employees, eight in 10 (81%) said they'd have been more likely to engage with their pension if they'd known it was being used in this way. And 60% said they felt more positive about the companies that were working to improve their ESG behaviours.

DC members generally appreciate simply being kept in the know, with 65% saying they'd feel more positive about their pension provider if they were kept informed about how the provider was using the investor rights that come with managing pension funds.

Our respondents appear to have mostly understood, or are beginning to understand, that there's a connection between the need to manage environmental and societal risks in case these have a knock-on effect on the long-term stability of the UK economy, and ultimately, on their retirement savings.

Our research clearly demonstrates that there's an opportunity

for policymakers, regulators, providers, employers and educators to work together on filling the knowledge gap around pension investments, so scheme members understand that there's much more to a pension fund than providing a retirement income. It also gives them a stake in helping to shape the world they live in.



Written by Legal & General Investment Management (LGIM) head of DC, Rita Butler-Jones

In association with



¹ Office for National Statistics: www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2023:

"Our Indicative modelled consumer price inflation estimates suggest that the October 2022 rate was the highest in over 40 years..."

² We performed quantitative research using a questionnaire for 4,678 defined contribution workplace pension savers in June 2023. Our respondents were split across generations and genders and across the UK and Ireland. This article refers to 3,634 defined contribution workplace pension members in the accumulation phase in the UK.

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