Finding the greenest generation

Emma Douglas explores how ESG views and identity intersect for three generations of savers

The "OK Boomer!" retort from the Instagram generation has been levelled at out of-touch parents on everything from Trump to tidying their room. But does it apply to responsible investing?

In the wake of the coronavirus pandemic, we have been sharply confronted with the environmental, social and governance (ESG) impacts that global capitalism – and its corollaries: trade and travel – has on the earth we inhabit.

Few disagree that it is time to do things differently. But with so much to achieve in so little time, how should we decide what's most important now?

LGIM's research into the ESG views of 1,000 savers examined the sharp generational and gender divides that exist on this question, and offered valuable insight into how to reflect a diverse set of views in savers' pensions. The respondents were drawn from three generations: Baby Boomers (aged 55 to 65), Generation X (aged 40 to 54) and Millennials (aged 25 to 39)[1].

Our key findings were:

- Boomers don't want to go bust over climate change: Over twice as many Baby Boomers as Millennials would prioritise investment performance over environmental considerations
- Now is the 'Age of Influence': Millennials were the most likely to want their investments to reflect climate change concerns
- Experience matters: Nearly 75 per cent of female 'Boomers' and 'Generation Xers', or 'Generation gender pay gap', would divest over poor pay and governance

Greta Expectations

High-profile campaigners of all ages are raising the alarm about the climate emergency and other societal issues. Initiatives range from Greta Thunberg's iconoclastic "how dare you?" address to UN delegates to the Bill & Melinda Gates Foundation. But are different generations concerned about the same subjects?

When asked about how they would like to allocate their money, Baby Boomers were more likely than any other generation to want to prioritise investment performance by keeping their investments diversified – even if that meant staying invested in fossil fuels. 30 per cent of this cohort – over double the percentage of Millennials – selected this option.

In general, environmental concerns struck more of a chord with those who identified as women, especially Millennials, even when balanced against financial performance. Given the choice between divesting from the fossil fuel sector irrespective of performance, divesting if there was no performance detriment, and staying as diversified as possible in order to maximise performance, nearly twice as many self-identified men (27 per cent) as women (14 per cent) prioritised investment returns.

Younger women were the least likely to prefer diversification, overall. Respondents cited their likelihood of being around to see the long-term effects of environmental degradation as central to its importance:

"For me, environment is more important. It's what we're handing on to our children, grandchildren and future generations." (Female, younger)

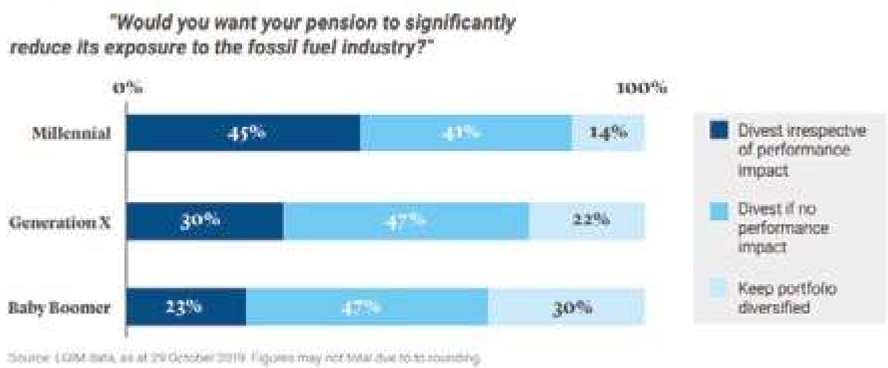
There was also more idealistic language in some statements from this cohort, in terms of making the world a more habitable place for the future. For some, broader topical issues, such as generational inequality, took precedence over the specifics of personal wealth and the implementation of investment ideas into pensions:

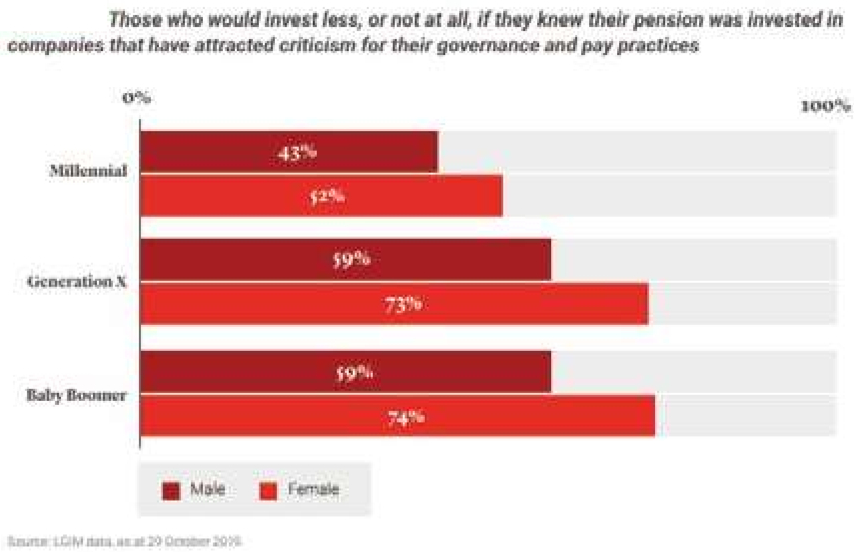
"I don't want my money to make rich people even richer." (Female, younger)

OK, Boomer?

But are Boomers really the 'baddies'? When considering any group's investment preferences, we need to be aware of where they are on their journey to retirement.

Being that much closer to leaving work, the financial performance of their





pensions was top-of-mind for many Baby Boomers.

And some Boomer respondents perceived a separation between ESG investing and financial returns, which then needed to be balanced against other considerations:

"It's a balance, isn't it? You want things to be ethical but you still need an income to retire on." (Female, older)

That's not to say that older generations did not feel connected to ESG issues. Rather, for Boomers and Generation X, the connection to ESG investing was often felt when the questions focused on social and governance impacts, which respondents may have witnessed or experienced during their own lives.

For example, the preference for excluding companies that lagged on ESG was particularly pronounced amongst those who may have experienced significant gender pay gaps during their working lives. When we looked at governance factors, 74 per cent of female Boomers and 73 per cent of female Xers would divest over poor pay practices, compared with about 59 per cent of men from the older two generations, and about half of all Millennial women.

"This session has highlighted stuff I haven't bothered about in the past, but these things are important." (Female, older)

Meanwhile, social concerns, especially human exploitation and community issues, stood out as important for older men. When it came to excluding poor performers, around 64 per cent of male Boomers and Xers chose to invest less, or not at all, in companies with a perceived negative social impact, compared to 50 per cent of Millennial men.

Looking beyond labels

Our findings highlight a need to look beyond the label when discussing ESG with savers.

The need for a stable pension naturally looms larger for certain groups. To engage Baby Boomers and Generation X as they near retirement, there may need to be further communication about the financial case for responsible investing. These cohorts need reassurance that their pension's primary purpose is still to save for the future.

For younger cohorts, it is important to engage members by showing a thorough comprehension of ESG concerns reflected through meaningful action, rather than just describing ESG issues or the virtues of responsible investing.

Of course, savers' views are unlikely to stay consistent throughout the course of their lives. There is already a disparity within the views of the cohorts themselves along gender lines.

However, a deeper understanding of these divides may help us make sense of an increasingly complex world, where we are forced to make era-defining choices in just a few years.

For more information on our findings, and how respondents wanted their views reflected in their pensions, please visit our website[2].

Written by LGIM head of DC, Emma Douglas

In association with Legal & General

[1] Source: LGIM data, as at 29 October 2019.
[2] https://update.lgim.com/dc-esg