Summary

- Certain studies suggest that younger pension holders are more interested in sustainable and responsible investing than older age cohorts.
- Utilising this interest could be vital in improving pension engagement among younger people.
- A variety of communications can be used to target younger savers, but the industry may need to modernise to take advantage of them.
- Some believe that engagement might not be the best way forward and that playing off inertia could be more effective in improving retirement outcomes.

The power of youth

Jack Gray investigates how the pensions industry can utilise younger people's interest in ESG-related issues to increase their engagement with their pensions

Pension holders are increasingly aware of the link between environmental and social factors and their pensions working for the benefit of people and the planet. A recent study by Make My Money Matter found that awareness of the link between pensions and climate change increased by around 85 per cent in 2021/22, with a growing number of savers tempted by green pension options as a result.

While 16 per cent of respondents said they planned to switch to a sustainable pension over the next 12 months, this figure more than doubled amongst people under the age of 34, to 36 per cent, with 67 per cent of under-34s saying they would choose a green pension fund if offered one by their provider.

Conflicting findings

Legal & General Investment Management (LGIM) also conducted a study that showed younger people were particularly interested in sustainable and responsible pensions, as its co-head of defined contribution (DC), Stuart Murphy, explains: "While climate and social issues can help drive engagement across all generations, our latest annual ESG research across 4,500 pension savers demonstrated that younger generations are driving the ESG agenda the hardest.

"A good example of this is that 81 per cent of Generation Z said they would

be willing to pay more for a net-zero pension, compared with less than half of those in older generations. We have the Tumelo ESG tool embedded into our member journey and are approaching 20,000 votes made by members – the highest percentage of those interacting with Tumelo are under the age of 35."

However, Aon consultant, Kath Patel, notes that there have been several member surveys with "conflicting evidence" on how different age cohorts feel about responsible investment.

"There is a growing body of evidence that members of all ages care about ESG matters and expect them to be taken into account in the management of their pension assets," she states.

"For example, in our 2021 DC survey, we found that only 4 per cent of members had checked to see where their pension was invested to see if they are comfortable with this from an environmental and ethical standpoint and only 5 per cent planned to do so in the next 12 months.

"Interestingly, older individuals are just as likely to have checked as younger ones, so this not a 'Millennials only' issue – no significant difference exists between younger and older members."

Patel adds that it could be inferred that members of all ages are likely to engage more with their retirement savings if ESG issues related to their investments are brought to their attention, not necessarily just younger members.

Capitalisation

Whether or not younger people have stronger feelings towards sustainable pensions than older people, it seems imperative to capitalise on the interest in environmental and social issues to engage with traditionally disinterested younger people.

"The argument that positioning your pensions to do environmental and social good is beneficial, both for the planet and your pocket, is strongest among the younger generations," says Redington senior vice president, DC and financial wellbeing, Russell Wright.

"Still, even the most effective engagement campaign on climate and social issues won't encourage younger people to save if they can't afford it or see saving for retirement as a hopeless task."

Wright argues that the first step is to ensure that people understand why saving for retirement should be high up on their priority list, and that contributing even a small amount can make a big difference.

"Once this hurdle is overcome, emphasising how investments can have a positive impact on the issues that matter to them should help to build engagement and encourage increased savings," he adds.

Wright warns that some of the methods that may have worked in encouraging older people to save into their pensions will not necessarily work on younger people, as they are more interested in a pension provider's purpose and social/environmental impact than their "centuries-long heritage".

"Some of the issues young people are most passionate about, such as racial justice and climate change, don't always feature positively in the history of some of our most established financial institutions," he notes.

Murphy argues that to engage younger people through the use of sustainable practices, the industry needs to start with the basics: "Bring to life for members that their pensions invest in real companies, how their pension providers are using the ownership of those companies to flex their muscles and influence positive change when it comes to climate and social issues.

"This needs to be regularly communicated to members. Members in our research said that if these messages were regularly communicated they would feel more positive about their pension provider, with over 50 per cent of all those surveyed saying they would take more of an interest in their pension."

Patel notes that there is no 'one-size-fits-all' approach and schemes should take care when selecting their ESG approach and communicating about ESG that the views of the majority of the membership are taken into account.

"It's not necessarily appropriate to reflect very specific member views that may not be shared by the majority," she says. "We suggest DC schemes keep their communications on the matter clear, concise, consistent, frequent and relevant, as opposed to just doing big, annual updates that may be missed by members."

Keep it modern

It's one thing to identify what message needs to be communicated to younger pension savers, and another to understand how to convey the message most effectively. Although it has long

been reliant on the postal service, the pensions industry is beginning to modernise with digital communications, which is likely to be more akin to what younger people are used to in their everyday lives.

"Consider using a variety of approaches – videos, emails, tv screens around the office or even as part of broader financial wellbeing campaigns," urges Patel. "Be consistent – pensions is a historically paper heavy industry, which can seem contradictive when communicating on environmental and wider ESG issues.

"Again, there is no one-size-fits-all solution. Trustees need to think about what best suits their scheme's specific membership, what issues will matter and resonate with them and the most effective method of reaching their members."

She says that while lots of information has to be publicly available due to regulations, such as Chair's Statements and Statements of Investment Principles, the industry needs to think about how the disclosures in these documents can be best communicated to younger members.

Another method of communication that appears to resonate with younger people is case studies, as Murphy explains: "Our ESG research suggests that using real ESG case studies could be a powerful method. Case studies bring to life how members' pension contributions can be used to drive positive change.

"After reading the case studies we showed members in our research, 77 per cent of Generation Z felt better about LGIM – this has more than tripled from 25 per cent in the previous year's survey. We believe this is a result of increased public awareness of climate and social issues and media coverage of COP26."

Wright argues that it is not only the way in which younger pension holders are communicated with, but the language that is used within those communications.

"Young people are pretty used to using abbreviation sand jargon – so pensions should be right up their street," he continues. "But we know that unfamiliar terms and lazy language puts people off pensions and investing generally. So it's important that pension communications use accessible language that doesn't patronise younger members."

To engage or not to engage?

Some in the sector have made the argument that the industry's attempts at engaging young people with their pensions is futile and the best way to improve retirement outcomes is to utilise their apathy, much like auto-enrolment does.

However, Murphy believes that engagement is "absolutely the right way to go", warning that not to do so is tantamount to the industry "burying its head in the sand".

"Members care about climate and social issues and will increasingly want to have their say," he notes. "They will expect their trustees and providers to be taking their views into account. Our research showed that younger generations are very influenced by the media and social media when it comes to these matters – we have a duty as an industry to engage with members and present them with specific information relevant to their pension savings."

Wright adds that, while apathy towards pensions was used to great effect through auto-enrolment, it is not sustainable and at some point everyone needs to actively engage to make decisions at retirement.

"With younger people, who generally have competing priorities like getting on the housing ladder, a desire to buy the latest technology or just making ends meet, this apathy can result in minimal or no saving for retirement at a time when compounding means it would have the greatest impact," he says.

"Educating people that their pension can be invested to have a positive impact on the world around them, or at least invested with environmental, social and governance factors considered, can encourage young people to take more of an interest in their pension. This can only be a good outcome."

Engagement can really add value by getting members to think about their pensions earlier so they are planning appropriately before it is too late for them to start building savings for retirement, according to Patel.

"ESG communications can be a tool to help make that connection but again, it needs to be done mindfully with the scheme-specific beliefs in mind and with care to avoid turning members 'off'," she concludes.

Written by Jack Gray