Summary
• The rise of master trusts and increased use of digital technology should help boost pension engagement, especially around ESG and particularly among younger scheme members.
• It is important to remember that not every member is focused on ESG issues.
• In the future ESG may become even more important as a way of encouraging engagement, in part as regulators insist on schemes and the companies in which they are invested making more ESG-related disclosures.
• Ultimately, increased engagement in both pensions and ESG issues will be beneficial for scheme members and society in general.

Is ESG the key to better engagement with pension scheme members?

David Adams asks if the high profile of ESG offers pension schemes an opportunity to improve member engagement, benefitting schemes and members – as well as the environment and society

Most people agree that we should reduce emissions of CO2 and other greenhouse gases to try to mitigate climate change; and many of us are very worried about the consequences of a failure to do so. Recent years have also seen a growing focus among campaigners and some policymakers on the need to tackle inequality and other injustices; while businesses and society in general have suffered as a result of some incompetent, negligent or downright criminal governance of businesses and other organisations.

These are the wrongs that the environmental, social and governance (ESG) agenda is supposed to address. But while it is in all our interests to pursue those aims, the drive to do so may have another positive impact in the short term; persuading more people to engage with the way their pension savings are invested – and with the subject of pensions and retirement in general.

Financial pressures

This would have multiple benefits; and could be particularly useful at a time when many people are worried about their immediate financial situation, says Hymans Robertson head of DC engagement, Kirsty Moffat. "The cost of living has risen dramatically and for the average person pensions are a low priority – but we need to try to push pensions up that priority list," she says.

LGIM co-head of DC, Rita Butler-Jones, agrees: "Our research tells us that almost 60 per cent of those that have retired have done so with no plan for their retirement income. We know members don't feel confident about making retirement decisions, especially when investments are concerned; and we are seeing a high proportion stay invested in their accumulation fund into retirement. There's more to be done to get savers to engage with their pensions earlier in the accumulation phase."

She says some progress has been made in recent years. "We have seen great success from campaigns run using personalised video benefit statements." In addition, LGIM's annual member forum was attended by more than 18,000 members, either in person or on demand; and more than one in three members of the schemes with which it works have registered for online services.

Moffat also thinks member engagement has improved, thanks in part to the appearance of master trusts in the pensions landscape, which have forced other pension providers to improve engagement and introduce more digital services.

ESG awareness

The boost that ESG issues can add to engagement with pensions gained impetus during 2021, says Butler-Jones: "As a result of provider engagement, publicity surrounding COP-26 and the media focus on governmental and big business approaches to climate change, awareness reached new heights over the past year."

LGIM's research shows that the number of people who were aware of the term net zero increased from 75 per cent to 83 per cent during the course of the year; and 84 per cent of scheme members surveyed want to reduce fossil fuel exposure in their pensions – "and we also know members are interested in issues like gender pension gaps, diversity and inclusion," she adds. Interest in ESG issues in relation to pensions may also have been stimulated by initiatives such as the Make My Money Matter campaign. Research from YouGov in 2021 suggested that 65 per cent of pension savers believe their pension should be invested in a way that reduces the impact of climate change.

Butler-Jones says LGIM sees ESG as presenting "great engagement opportunities" for schemes that use digital technologies to engage with members. Some LGIM clients have had significant success using technology provided by Tumelo as a platform for engagement. "With the success we have seen with Tumelo, where most participants are people in the 25 to 34 age bracket, this is a breakthrough for bringing early savers into their pension journey," she says.

Elsewhere, The People's Pension now regularly surveys members to try to find out which ESG issues they see as most important, says B&CE (the provider behind The People's Pension) managing director, investments, Jon Cunliffe. But he thinks the inertia within the auto-enrolment process, which has been so effective as a means to bring workers into pension saving, is not conducive to active engagement. "This does make it difficult to understand the level of members' active interest in both ESG and where their money is being invested," he admits.

Similar work is underway at Nest. "Messages describing how savings are responsibly invested may be more powerful than talking to pension savers about their money being invested in assets like shares and property," says Nest director of investment development and delivery, Paul Todd. "Nest members tell us they want their pension invested responsibly; and they feel reassured when they hear about our investment activities, such as going tobacco free and supporting renewable energy.

"Our research suggests sharing this information can build trust with savers, presenting a real opportunity not only for pension schemes but for the whole financial industry."

Limitations

But that research also revealed limitations in using ESG to drive engagement. When asked which investment information they would find most interesting, more than 60 per cent of members said the financial returns their savings were earning, compared to fewer than 40 per cent who cited either specific companies in which their money was invested or the impacts of those companies' business activities.

Cardano and Now Pensions group head of sustainability, Will Martindale, describes a picture of ambition tempered with pragmatism when it comes to member engagement around ESG; and in relation to its own engagement with the companies in which it is invested.

For example, the master trust has engaged with the companies about their approach to gender inequality. While this, along with environmentally responsible investing, appears to be something of which most members approve, these issues still appear to be "on the margins in terms of savers' interactions with their pension scheme", according to Martindale. Now Pensions has only had "a few" interactions with members on sustainability issues during recent months.

"We need to be realistic," says Martindale. "When most people select a pension they're not actively engaging with the scheme in the same way they might with other financial services providers." Yet at the same time, it seems many members "would expect sustainability to be part of the investment process". "They may not be vocal about their views, but that doesn't mean they don't want their views taken into account."

Future developments

Most observers think that use of ESG to help drive member engagement will become more common in future. The Statement of Investment Principles now has to state how a scheme is taking ESG into account in its strategies and engagement with companies in which it is invested. Further ESG-linked reporting requirements are likely to be introduced in future.

Fulfilling these requirements should help schemes to engage with members, Cunliffe suggests. "We would expect there will be an increase in member engagement, as schemes want to highlight positive ESG actions, and members become more interested in the activities their money is funding."

In any case, he continues, this is what pension schemes should be doing. "Pensions are the primary way in which the majority of the public gains exposure to the stock market," he says. "With that comes the responsibility and ability to push for changes that can benefit society, while providing long-term investment returns.

"Increased member engagement can help nurture financial literacy and encourage members to save more for their retirement. Members of pension schemes should expect that those managing their money are taking steps to invest in ways that address climate change risks, while removing the funding of companies that are breaching international norms involving human rights, labour, the environment, and corruption."

In theory then, this is a trend that benefits everyone – particularly if it drives meaningful progress around the environment and social justice. It means pensions really can be a force for good.

Written by David Adams, a freelance journalist

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