The key to unlocking member engagement

A report for the DC Investment Forum, prepared by Ignition House

JULY 2020
Members think that Covid-19 will change society forever
Groundswell of interest in ESG issues continues to grow
Actions speak louder than words
The first challenge for trustees is to get more members to understand what ‘investing’ actually means
Defining Responsible Investment
Current awareness of Responsible Investment is low, particularly amongst women
One in ten think they have actively made a choice to be in Responsible Investment
Seven in ten members are interested in Responsible Investment for their DC pension money
No difference between Millennials, Gen X and Boomers
E, S and G: the three elements of Responsible Investment
Seeing that their money is invested for good is very attractive to many DC members
Half of all members believe there is a ‘red line’ already in place
Responsible Investment has the potential to increase trust, engagement and membership
Commercial reasons to consider adopting Responsible Investment have strengthened
The ‘Greta Thunberg effect’ is creating awareness of how climate issues can impact pension savings
Majority of members are interested in investing some money into climate-friendly funds
Three in ten would invest in climate-friendly funds even if this meant lower returns, higher risk or higher cost
Mis-match between willingness to invest in climate-friendly funds vs actions taken
Responsible Investment is likely to drive higher engagement than climate-friendly funds alone
Bringing it all together
Appendix: About the members who were surveyed
Credits and contact details
The asset managers that make up the DCIF believe that a strong focus on investment is vital to helping members of DC pension schemes achieve their retirement goals.

We believe that access to the most exciting investment developments should be available to everyone, and that investment excellence is something to be celebrated.

We commission and share high-quality research to help inform the DC investment discussion, through our thought leadership papers, roundtables and events.
The Chair’s foreword

Two years on from the DCIF’s last report on ESG, the world is a very different place. When we started to plan this report, we wanted to measure whether the work of activists like Greta Thunberg had made members of defined contribution (DC) pension schemes even more passionate about ESG issues (and it certainly has).

Then while we were in the process of producing this research, the Covid-19 pandemic happened. The crisis has changed the way people think about the world around them. Our research – which was expertly carried out by Ignition House – shows that people have enjoyed the fresh air, clear skies and resurgence of nature created by vastly less air traffic. They also plan to shop more locally and support small businesses in future.

As pension savers, if people came together as a collective and voted with their feet, they could change the world. And this research demonstrates that people care very much about responsible investment, once they understand what it entails. But most people still see investment as esoteric and unrelated to them.

Just eight percent of DC savers thought their money was being invested in a way that would be considered “responsible investment”. However, there is huge enthusiasm for the subject. Seven in ten people are interested in responsible investment for their DC pensions.

Passion for responsible investment is often seen as the preserve of millennials. However, our research shows that people care about these issues, irrespective of their age (see p23 for a breakdown of interest by age group).

How best to overcome this disconnect between what people think and the way they are invested? The industry is already doing more to capture people’s imaginations. Trustee boards are working to better reflect members’ preferences – and in the second part of this research report, we give them some ideas on how to approach this process. Consumer campaigns might also help to move the dial.

As DC pot sizes grow, people could become more interested in where their money is invested. Our research shows that their interest increases once their pot size reaches £20k. Wouldn’t it be great if, as an industry, we had a good story to tell them when they ask?

Hilary Inglis
Chair, the DC Investment Forum
First State Investments
“Member interest in ESG issues has increased significantly”
Introduction

In 2018 we explored DC members’ awareness and attitudes towards Responsible Investment through a nationally representative online survey of 1,000 current and deferred DC members aged 22-65, supplemented by 15 one-hour in-depth qualitative discussions. At that time, DC members were starting to think about how their actions can have an impact on the world around us; the Blue Planet programme had just been aired and had woken up the nation to the perils of single-use plastic and we were about to experience a run of unusual weather patterns across the globe. Since then the media has continued to keep climate change activism front of mind, from the ‘Greta effect’ mobilising children across the globe to strike on Fridays to Extinction Rebellion closing down swathes of Central London. In early 2020, Covid-19 brought the double whammy of a health crisis and economic crisis all rolled into one. This unprecedented, systemic event has changed society in so many ways.

And so the time seemed right to once again survey DC members to see how their views have changed. Has Covid-19 highlighted society’s willingness and ability to change for the common good? And how will that translate into investment preferences?

The results for 2020 are directly comparable with the 2018 results. Once again, the nationally representative 1,000 current and deferred DC members aged 22-65 was conducted online. Quotas were set by age, region, and gender to ensure that the profile of respondents in the 2020 survey broadly matched the 2018 survey. Our research took place over the week commencing 23rd April 2020, at which point the UK had been in lockdown for several weeks and the media had been reporting around 1,000 deaths a day.

Our 2020 survey tracked key questions on member attitudes to Responsible Investment. We found that member interest in ESG issues had increased significantly across the vast majority of metrics we explored.
Key findings

Of all DC savers who responded to our survey...

- 74% will consider boycotting brands or companies who have not treated their employees well.
- 82% feel that Covid-19 will change society forever.
- 87% believe businesses have a wider social responsibility than simply making a profit in 2020, up from 81% in 2018.
- 83% feel it is important to protect the vulnerable in society, up from 74% in 2018.
- 80% would like the way their pension is invested to do some good as well as provide them with a financial return.
67% feel that Responsible Investment would want to make them engage more with their pension and find out more about it, up from 57% in 2018.

65% would have more trust in their pension if they knew that their DC pension money was being used for Responsible Investment, up from 56% in 2018.

50% would contribute more if they knew that their DC pension money was being used for RI, up from 40% in 2018.

30% would invest in climate-friendly funds even if this meant lower financial returns, higher cost or greater risk than traditional funds.

8% of members have no interest in climate-friendly funds.
An overwhelming 82% of DC members believe that the Covid-19 pandemic will change society forever. They held this view irrespective of age, gender, or pension pot size. This systemic shock is causing them to re-evaluate some aspects of the world they live in and has reframed what is important to them in life. They are more inclined to think local – over three quarters (77%) of members feel that there is more of a community spirit now than before the crisis, with women more likely to feel this way than men (84% compared to 71%). Many people have tried to shop locally during the pandemic and this trend is set to continue after the crisis is over, with 79% of members saying they are now more interested in supporting small or local businesses.
When it comes to the way businesses behave during the pandemic, people will have long memories. Three quarters (74%) of members would consider boycotting brands or companies who have not treated their employees well during the Covid-19 pandemic, rising to 82% of those with pension pots worth over £50k.

People will also vote with their feet. Three-quarters of members say that they will look at how well companies have treated their employees when thinking about their next job move (excluding those who report it does not apply to them). Those with pots over £50k are more likely to agree (81%, compared with 75% for all members).

Working patterns also seem likely to change. Almost six in ten (57%) of people who can work from home will try to do so more often, even when the restrictions are lifted.

As well as the myriad lifestyle benefits that working from home can offer, members’ enthusiasm could stem from their concerns about the environment. Having enjoyed clearer skies, fresher air and less noise pollution, members may not want to go back to the status quo. Asked whether they would try to reduce their carbon footprint by attending more online meetings and reducing travel via public transport, 59% of members said they would. This was particularly true of members with larger pots: 68% of members with DC pension pots worth over £50k agreed with this statement.
Rather than being a catalyst in itself, the Covid-19 crisis is most likely accelerating changes that we were already seeing in member attitudes. In 2018 we asked members to give their views on five key questions that summarise the main tenets of Responsible Investment. In 2020 we have seen an increase in the proportion of members agreeing or agreeing strongly to the ‘s’ factors. Members were very concerned about the state of the world in 2018, and this concern has only heightened in the last two years. Today, two thirds (66%) of members are worried about the state of the world and feel personally responsible for making a difference, up from 59% in 2018. Women feel more strongly about this than men (71% compared to 61% respectively), as do those with DC pots of less than £20k. Here, 72% agreed or strongly agreed compared with 66% of all DC members).

Groundswell of interest in ESG issues continues to grow

Figure 2. Current attitudes towards ESG issues amongst DC pension holders (% who agree)

Fig 2. Question
How much do you agree or disagree with the following statements?
Base: All UK adults aged 22-65 with a DC pension (2018:1,061/2020:1,017)
Our 2018 survey found younger age groups – those under 45 – felt more personally responsible for the state of the world than their older counterparts. However, in 2020, the older groups have caught up, and there is now no statistical difference by age.

The vast majority of members believe businesses have a wider social responsibility than simply making a profit. Overall, 87% of members agreed with this statement in 2020, up from 81% in 2018. There is no statistical difference by age, gender, or pot size.

Members feel more strongly about protecting the vulnerable in society. Overall, 83% agreed with this statement in 2020, up from 74% in 2018. There is no statistical difference by age, gender, or pot size.

Overall, 71% now feel strongly about controlling executive pay; no change since 2018. Those with pots of more than £50k are more likely to agree (79% compared to 71% of all DC members). There is no statistical difference by gender or age.

Our survey indicates that member attitudes are changing quickly and the direction of travel is the same; people feel more strongly about ESG issues than they did five years ago.
“Members are more likely to boycott a brand or company because they disagree with the ethics of their behaviour”
It is very easy to report good intentions in an online survey, and indeed, the very nature of the questions asked is likely to result in a response bias – who would want to admit that they didn’t care about environmental issues? A much more powerful indicator of how strongly members really feel about ESG issues is in the reported actions they take.

Figure 3 presents compelling evidence that DC members have increased their own activities over the last two years, particularly when it comes to recycling waste (61% are a lot more likely to do this) and reducing plastic (52% are a lot more likely to do this).

Members are more likely to boycott brands a brand or company because they disagree with the ethics of their behaviour or the way they treat their workers. There is no statistical difference by gender.

**Figure 3. Change in ESG activities since 2018**

(© who are more likely to undertake the activity than two years ago)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycle waste</td>
<td>84%</td>
</tr>
<tr>
<td>Boycott a firm or company because I disagree with the way it treats its workers</td>
<td>63%</td>
</tr>
<tr>
<td>Check product packaging for sustainability</td>
<td>62%</td>
</tr>
<tr>
<td>Buy from ‘sustainable’ brands such as Fairtrade</td>
<td>58%</td>
</tr>
<tr>
<td>Boycott a brand or company because I disagree with the ethics of their behaviour</td>
<td>56%</td>
</tr>
<tr>
<td>Avoid products which contain palm oil</td>
<td>53%</td>
</tr>
<tr>
<td>Buy fewer ‘fast fashion’ items</td>
<td>58%</td>
</tr>
<tr>
<td>Make an additional payment to offset my carbon footprint when travelling</td>
<td>37%</td>
</tr>
<tr>
<td>Donate money to sustainable causes</td>
<td>40%</td>
</tr>
<tr>
<td>Use public transport whenever I can</td>
<td>41%</td>
</tr>
<tr>
<td>Try to eat less meat or dairy products</td>
<td>45%</td>
</tr>
<tr>
<td>Try to reduce their use of plastic</td>
<td>85%</td>
</tr>
<tr>
<td>Seek employment with sustainably focused organisations</td>
<td>34%</td>
</tr>
</tbody>
</table>

**Note:** Data shows the proportion of adults who responded “A lot more likely” or “A little more likely”.

**Base:** All UK adults aged 22-65 with a DC pension (2020:1,017)
Members with larger pot sizes are more likely to have this sentiment – two thirds (66%) of those with pots over £50k said they were more likely to do this compared to 58% of all DC members.

It is encouraging to see that issues such as palm oil, sustainable brands, and fast fashion are now firmly on members’ agendas. One in five members says they are a lot more likely to buy from sustainable brands and check the packaging for sustainability than two years ago. Awareness of the impact of dairy farming has increased significantly, due in part to initiatives such as Veganuary, where 400,000 people signed up for the 2020 campaign. This campaign alone estimated that it saved the carbon dioxide equivalent of 450,000 flights and the lives of more than a million animals.1

Reference
1 Rebecca Smithers, “Veganuary signed up record 400,000 people, campaign reveals”, (The Guardian, 3 February 2020)

---

**Figure 4. Proportion of members who are more likely to do the activity compared to two years ago, by age**

<table>
<thead>
<tr>
<th>Activity</th>
<th>22-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Try to reduce my use of plastic</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recycle waste</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boycott a firm or company because I disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check product packaging for sustainability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy from ‘sustainable’ brands such as Fairtrade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boycott a brand or company because I disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy fewer ‘fast fashion’ items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoid products which contain palm oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Try to eat less meat or dairy products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use public transport whenever I can</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donate money to sustainable causes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make an additional payment to offset my carbon footprint when travelling</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seek employment with sustainably focused organisations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Fig 4. Key**
- 22-34
- 35-44
- 45-54
- 55-65

**Fig 4. Question**
Compared to two years ago how likely are you to do the following?

**Note**: Data shows the proportion of adults who responded “A lot more likely” or “A little more likely”.

**Base**: All UK adults aged 22-65 with a DC pension (2020:1,017)
Trustees are hesitant to survey members on their attitudes towards ESG as they are fearful that the results will simply reflect the ‘vocal minority’. In many respects, trustees are right to exercise caution – but they should not confuse ignorance with apathy.

We know from numerous studies that low levels of knowledge and engagement mean that members have limited understanding of their pensions and how they work. This is particularly true when it comes to how their DC pension money is invested, where, according to the Pension Policy Institute, over 90% of members are in default funds. Our survey respondents were no different. Just three in ten (31%) had checked to see where their funds were invested, and one in five (20%) had made any decisions about their pension funds. Men are more likely to say they have done this than women, and the propensity to engage increases with pot size.

The first challenge for trustees is to get more members to understand what ‘investing’ actually means.

---

**Figure 5. Awareness of what investing means**

<table>
<thead>
<tr>
<th></th>
<th>All UK adults</th>
<th>Male</th>
<th>Female</th>
<th>&lt;£20k</th>
<th>£20k-&lt;£50k</th>
<th>£50k+</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24%</td>
<td>34%</td>
<td>13%</td>
<td>18%</td>
<td>31%</td>
<td>51%</td>
</tr>
<tr>
<td>Fully aware</td>
<td>39%</td>
<td>42%</td>
<td>37%</td>
<td>41%</td>
<td>51%</td>
<td>37%</td>
</tr>
<tr>
<td>Somewhat aware</td>
<td>36%</td>
<td>24%</td>
<td>50%</td>
<td>41%</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Not aware at all</td>
<td>24%</td>
<td>34%</td>
<td>13%</td>
<td>18%</td>
<td>31%</td>
<td>51%</td>
</tr>
</tbody>
</table>

---

**Reference**

2 “The DC Future Book”, (Pensions Policy Institute, 2019)
It is clear from our survey that members are interested in environmental, social and governance issues and are adapting their daily lives to reflect these values. However, they have yet to grasp that how their pension money is invested can also have an impact on the world around them.

To help them understand what investing means, members were shown the following statement (see Box 1) and were asked whether they were aware of this before they read it. Not surprisingly, the vast majority (76%) said that they were not really aware that investing means that they own a small share of companies and, as a result, their pension money can influence how these companies operate; this was very much in line with our 2018 findings. Empowering members with this knowledge is a vital first step in any journey to discover the true strength of member sentiment towards Responsible Investment.

Box 1. What Investing Means

The money in your defined contributed pension is invested. This means that you own small parts of companies (such as M&S, BT, British Gas) both in the UK and internationally through your pension. Collectively, people with pensions own substantial parts of these businesses. Pensions, therefore, have the power to make a difference to how such companies operate.

“I wouldn’t have thought that the insurance people, or whoever invests our money, could influence a company. I never thought about it like that. I just assumed a company acts in whatever way a company acts.”

– Male, Age 45-54, 2018 qualitative research
“Just 16% of DC members said that they were very aware of Responsible Investment. 47% of women had not heard of it, compared to 29% of men.”
Defining Responsible Investment

There are many different interpretations of ESG and, indeed, one of the key challenges for the industry remains that there is limited standardisation in what ESG actually means. ESG is not a consumer-friendly term and is easy to confuse with ethical investment.

We used the term ‘Responsible Investment’ when talking to members about ESG issues in both the 2018 and 2020 surveys, and respondents in both surveys were shown exactly the same definition of Responsible Investment (see Box 2) so that direct comparisons can be made.

Box 2. Definition of Responsible Investment

Responsible investment means investing in a way that takes into account not just how companies are managed, but other issues too, from the impact they have on the environment to the role they play in society. People do this because there’s evidence that these issues affect how companies perform over the long term – and therefore what happens to the money that’s invested in them.

For example, if a company you invested in was involved in an oil spill, found to be treating its workers poorly, or accused of bribing politicians in another country, it would damage that company’s reputation and its share price. If that happened, you’d lose money.

Ignoring issues like these might mean you miss out on opportunities too. For example, a company manufacturing hybrid cars might do better over the long term than one making diesel cars. A company that invests in training its workforce might outperform its competitors. A company paying its executives reasonable bonuses might return more value to its shareholders. In each of these examples, considering how the company treats the environment, how it treats people, and how it’s managed, over the long term could enhance the company’s performance and may make you more money.
Current awareness of Responsible Investment is low, particularly amongst women

Figure 6 shows that, once they had read our description, just 16% of DC members said that they were very aware of Responsible Investment. Women were more likely to say that they had not heard of it (47%, compared to 29% of men), but there is no significant difference by age.

Overall awareness has increased since 2018, driven by a reduction in those saying they are not sure. That said, a significant proportion, one in four (38%), have not heard of it.
One in ten members think they have actively chosen to be in Responsible Investment

Just 8% of members said that they had invested their DC pension money this way and a further 12% thought they had done this with another investment, no significant change since 2018.

We found no difference by age, but men were more likely to think they had done this with their investments than women (16% versus 6% respectively), and the propensity increased with pot size. But even amongst those with £50k in DC pension money, only one in five (21%) thought they had invested in this way.

![Figure 7: Take-up of Responsible Investment amongst DC pension holders](image_url)

**Fig 7 Key**
- Yes, with my pension savings
- Yes, with money other than my pension savings
- I’m not sure
- No

**Fig 7 Question**
Have you ever invested in this way before either with your pension money or with another investment?

**Base:** All UK adults aged 22-65 with a DC pension (2018: 1,061 / 2020: 1,017)
Given what we now know about members’ general attitudes and behaviours, it is perhaps not surprising the concept of Responsible Investment aligns well with how they would want their pension money to be invested, with seven in ten (69%) members now saying that Responsible Investment is of interest to them, compared to 61% in 2018.

Looking at member interest in Responsible Investment in more detail, we find that in 2020:

- Men are more interested than women (73% and 65% respectively)
- Interest increases once pot size reaches £20k

**Figure 8: Interest in Responsible Investment amongst DC pension holders**

<table>
<thead>
<tr>
<th>Year</th>
<th>Very Interested</th>
<th>Somewhat Interested</th>
<th>Not Very Interested</th>
<th>Not Interested at All</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>14%</td>
<td>24%</td>
<td>55%</td>
<td>6%</td>
</tr>
<tr>
<td>2018</td>
<td>7%</td>
<td>32%</td>
<td>44%</td>
<td>6%</td>
</tr>
</tbody>
</table>
Despite the media reporting that Millennials (those aged between 22-34) are the most interested in this type of investing, Figure 9 shows that there is no significant difference by age.

**Figure 9: Interest in Responsible Investment, by age**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Very Interested</th>
<th>Somewhat Interested</th>
<th>Not very Interested</th>
<th>Not interested at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>All UK adults</td>
<td>14%</td>
<td>55%</td>
<td>25%</td>
<td>4%</td>
</tr>
<tr>
<td>22-34</td>
<td>15%</td>
<td>54%</td>
<td>24%</td>
<td>7%</td>
</tr>
<tr>
<td>35-44</td>
<td>15%</td>
<td>62%</td>
<td>19%</td>
<td>4%</td>
</tr>
<tr>
<td>45-54</td>
<td>12%</td>
<td>57%</td>
<td>24%</td>
<td>7%</td>
</tr>
<tr>
<td>55-65</td>
<td>14%</td>
<td>47%</td>
<td>32%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Fig 9. Key

- Very interested
- Somewhat interested
- Not very interested
- Not interested at all

Fig 9. Question

How interested are you in investing your defined contribution pension savings in this way?

Base: All UK adults aged 22-65 with a DC pension (2020:1,017)
E, S and G: the three elements of Responsible Investment

There are three key elements to Responsible Investment – E (environmental), S (social) and G (governance). Figure 10 clearly shows a strong member interest in all three.

Looking at the 2020 numbers in a little more detail:
• There is no significant difference by gender across all three questions
• No significant difference in those wanting pension providers to invest in a way that protects the environment by age or pot size
• Those aged 55-64 are more likely to want their pension provider to control executive pay (47% strongly agreed with this, compared to 39% of all members)

Figure 10: Attitudes of DC pension holders towards Responsible Investment

Thinking now in a bit more detail about how your pension money could be used for Responsible Investment to what extent do you agree or disagree with the following statements

Base: All UK adults aged 22-65 with a DC pension

2018: 1,061
2020: 1,017
Eight in ten (80%) members agreed that they would like the way their pension is invested to do some good as well as provide them with a financial return. There is no significant difference by gender, age or pot size. This is a significant increase from nearly seven in ten (69%) members in 2018.

However, when faced with a very stark financial choice about their money, members are evenly split on whether they would want Responsible Investment. Nevertheless, just over half (55%) agreed that they would be willing to accept a lower financial return in the shorter term to achieve higher long-term financial returns with Responsible Investment, no change since 2018. Those with larger pots, over £50k, were more likely to agree with this statement.

A further three in ten (28%) are open to persuasion.

This positive result is striking, given that present bias is such a powerful driver of behaviours when it comes to pension decisions.
Half of all members believe there is a ‘red line’ already in place

Half (47%) of members think that the people making decisions about how to invest their defined contribution pension money are already investing responsibly with their pension money; just 3% are sure that this is not already happening. The change since 2018 has been driven by a significant drop in the number of people reporting they have ‘no idea’.

There is no difference in this pattern by age. This misplaced expectation that pension providers are already investing responsibly on their behalf perhaps explains why so many of our survey respondents think that they had heard of Responsible Investment before, and why a significant number think that they are already investing in this way.
Responsible Investment has the potential to increase trust, engagement and membership

Rebuilding trust in pensions is a hot topic, especially amongst the over 50s who are getting ever closer to accessing their pension pots. Providers have spent millions of pounds on initiatives to try to engage members, but with very limited success.

We found compelling evidence in our 2018 survey that Responsible Investment has the potential to have a powerful positive impact on how people feel about their pensions and on how much they engage with them, and the numbers feeling this way have significantly increased in 2020.

Again, the shift is driven by a significant drop in the group who hold a more neutral view.

Differences by age seen in the 2018 data have now disappeared, and this sentiment is held equally across all age groups.

Figure 13: Responsible Investment’s impact on how members feel about their pension (% who agree)

<table>
<thead>
<tr>
<th>Statement</th>
<th>2020</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>It would make me feel more positive about the way my pension is invested</td>
<td>75%</td>
<td>64%</td>
</tr>
<tr>
<td>I would make me feel more positive about my pension</td>
<td>71%</td>
<td>63%</td>
</tr>
<tr>
<td>It would make me want to engage more with my pension and to find out more about it</td>
<td>67%</td>
<td>63%</td>
</tr>
<tr>
<td>I would have more trust in my pension</td>
<td>65%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Figure 14: Responsible Investment’s impact on trust and engagement, by age (% who agree)

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2020</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-34</td>
<td>65%</td>
<td>67%</td>
</tr>
<tr>
<td>35-44</td>
<td>62%</td>
<td>71%</td>
</tr>
<tr>
<td>45-54</td>
<td>59%</td>
<td>61%</td>
</tr>
<tr>
<td>55-65</td>
<td>68%</td>
<td>66%</td>
</tr>
</tbody>
</table>
Across the board, members said that Responsible Investment could be the trigger for them to think about paying more money into their pension. Half (50%) of members now feel this way, compared to 40% in 2018. Conversely, there has been a drop in the proportion of members who would not want to have DC money in Responsible Investment and would want to move their pension elsewhere if this was the case. Again, this shift has been driven by fewer respondents taking a neutral stance.

This suggests that the vast majority would be open to having Responsible Investment incorporated within their default fund, and the balance of sentiment paves the way for trustees to consider Responsible Investment as an opt-out rather than an opt-in option.

Figure 15: Percentage of members who would want to contribute more, or who would transfer their pension, if their pension money was being used for Responsible Investment (% who agree)

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>It would make me want to pay more into my pension</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>It would make me want to move my pension money elsewhere</td>
<td>26%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Base: All UK adults aged 22-65 with a DC pension (2018:1,061/2020:1,017)

Figure 16 shows that the propensity to save more is highest amongst our younger members. This could be particularly beneficial as these are the members who are likely to be making the minimum employee and employer contributions required under auto-enrolment.

Figure 16: Percentage of members who would want to contribute more if their pension money was being used for Responsible Investment, by age (% who agree)

<table>
<thead>
<tr>
<th></th>
<th>All UK adults</th>
<th>22-34</th>
<th>35-44</th>
<th>45-54</th>
<th>55-65</th>
</tr>
</thead>
<tbody>
<tr>
<td>It would make me want to pay more into my pension</td>
<td>50%</td>
<td>53%</td>
<td>59%</td>
<td>43%</td>
<td>43%</td>
</tr>
<tr>
<td>It would make me want to move my pension money elsewhere</td>
<td>26%</td>
<td>43%</td>
<td>43%</td>
<td>43%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Base: All UK adults aged 22-65 with a DC pension (2020:1,017)
The ‘Greta Thunberg effect’ is creating awareness of how climate issues can impact pension savings

There is no doubt that media attention has driven awareness of climate change over the last two years. We wanted to see to what extent this so-called ‘Greta Thunberg effect’ has had on DC pension members’ thoughts on the way their pension money is invested. We saw in Figure 10 that the vast majority of members (79%) would like their pension provider to be investing in a way that is protecting the environment.

These views are, perhaps, not surprising when we consider that Figure 17 shows that two thirds (64%) of members agree that long-term investment performance will be constrained by the world running out of natural resources and that investment managers should seek to mitigate these issues when investing their pension savings. Furthermore, six in ten (62%) believe that climate change will adversely affect long-term investment performance (and therefore the performance of pension scheme investments) if not properly managed. The 2020 figures are significantly higher than the 2018 results, showing a clear direction of travel in member views.
Together, this data presents a powerful demonstration of members’ concerns.

Exploring members’ views towards the assertions made in this statement reveals:

• Although 40% were not sure that climate change will adversely affect long-term investment performance (and, therefore, the performance of pension scheme investments) if not effectively managed in 2018, just 31% felt this way in 2020.

• Just 5% disagreed with the statement that long term investment performance will be constrained by the world running out of natural resources and that investment managers should seek to mitigate these issues when investing pension savings, no change since 2018.

• A significant proportion of members have no views either way or could not answer these questions, indicating there is plenty of scope for member education. In other areas, we have seen this neutral group express more positive views over time, and we would expect this to be the case here, driving numbers up even further as time goes on.
Majority of members are interested in investing some money into climate-friendly funds

Just 8% of members expressed no interest whatsoever in climate-friendly funds. There was no significant difference by age or gender. In contrast, one in five (19%) were very interested.

When asked how much they would be willing to put into a climate-friendly fund, one in twenty (5%) said all of it. Two thirds (66%) would be willing to invest at least 10%; half (46%) would be willing to invest at least 25%

Fig 18. Interest in climate-friendly funds, by age

<table>
<thead>
<tr>
<th>Age</th>
<th>Very interested</th>
<th>Somewhat interested</th>
<th>Not very interested</th>
<th>Not interested at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>All UK adults</td>
<td>19%</td>
<td>55%</td>
<td>18%</td>
<td>8%</td>
</tr>
<tr>
<td>22-34</td>
<td>23%</td>
<td>53%</td>
<td>17%</td>
<td>6%</td>
</tr>
<tr>
<td>35-44</td>
<td>22%</td>
<td>56%</td>
<td>17%</td>
<td>5%</td>
</tr>
<tr>
<td>45-54</td>
<td>13%</td>
<td>60%</td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td>55-65</td>
<td>20%</td>
<td>48%</td>
<td>21%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Fig 19. Willingness to invest in climate-friendly funds

<table>
<thead>
<tr>
<th>How much of your defined contribution pension money would you want to invest into a climate-friendly fund?</th>
</tr>
</thead>
<tbody>
<tr>
<td>All of it</td>
</tr>
<tr>
<td>15%</td>
</tr>
</tbody>
</table>

Base: All UK adults aged 22-65 with a DC pension (2020:1,017)
Three in ten would invest in climate-friendly funds even if this meant lower returns, higher risk or higher cost

While there is no evidence that investing responsibly would result in a lower financial return, we asked members whether they would be willing to make trade-offs, to test the level of their conviction. There is a core group of around three in ten members who would be willing to accept a lower financial return with a climate-friendly fund, prepared to take a greater financial risk and accept higher costs than they would with a traditional investment.

<table>
<thead>
<tr>
<th>Figure 20: Willingness to take more risk or pay more for climate-friendly funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am willing to accept a lower financial return with a climate-friendly fund than I would with a traditional investment</td>
</tr>
<tr>
<td>I would be prepared to take greater financial risk with a climate-friendly fund than I would with a traditional investment</td>
</tr>
<tr>
<td>I would be prepared to accept higher costs with a climate-friendly fund than I would with a traditional investment</td>
</tr>
</tbody>
</table>

**Fig 20. Key**

Strongly agree
Slightly agree
Neither agree nor disagree
Slightly disagree
Strongly disagree

**Fig 20. Question**

Thinking now in a bit more detail about how your pension money could be used to help the environment to what extent do you agree or disagree with the following statements?

**Base:** All UK adults aged 22-65 with a DC pension (2020:1,017)
Mis-match between willingness to invest in climate-friendly funds vs actions taken

Despite these positive views on climate-friendly funds, just one in ten (9%) of members think they have actively invested in climate-friendly funds with their DC pension money, and a further 12% have done so with other savings. Again, men are twice as likely to report doing this than women; 12% compared to 6% respectively for pensions, and 16% compared to 8% for other savings. The propensity to invest this way increases with pot size, with almost one in five of those with pots over £20k saying they have invested in climate-friendly funds with their pension money and other savings.

Similarly, just 6% of members think that their DC scheme is already investing their money in this way. A further three in ten (31%) think that this might be happening, but are not sure.

Figure 21: Proportion who have actively invested in climate-friendly funds, by age

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Yes, with my pension savings</th>
<th>Yes, with money other than my pension savings</th>
<th>No</th>
<th>I'm not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-34</td>
<td>6%</td>
<td>13%</td>
<td>67%</td>
<td>73%</td>
</tr>
<tr>
<td>35-44</td>
<td>10%</td>
<td>15%</td>
<td>65%</td>
<td>67%</td>
</tr>
<tr>
<td>45-54</td>
<td>4%</td>
<td>10%</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>55-65</td>
<td>3%</td>
<td>13%</td>
<td>9%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Figure 22: DC pension members who suspect pension schemes are already investing in climate-friendly funds, by age

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Yes, they are definitely already doing this</th>
<th>I don't know, but I suspect they might already be doing this</th>
<th>I don't know, but I doubt they are already doing this</th>
<th>No, they are definitely not already doing this</th>
<th>I have no idea</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-34</td>
<td>6%</td>
<td>31%</td>
<td>29%</td>
<td>6%</td>
<td>28%</td>
</tr>
<tr>
<td>35-44</td>
<td>7%</td>
<td>31%</td>
<td>28%</td>
<td>6%</td>
<td>26%</td>
</tr>
<tr>
<td>45-54</td>
<td>10%</td>
<td>28%</td>
<td>30%</td>
<td>6%</td>
<td>26%</td>
</tr>
<tr>
<td>55-65</td>
<td>4%</td>
<td>32%</td>
<td>30%</td>
<td>4%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Fig 22. Question
Do you think that the people making decisions about how to invest your defined contribution pension money are already investing your pension money into climate-friendly funds?

Base: All UK adults aged 22-65 with a DC pension (2020:1,017)
Responsible Investment is likely to drive higher engagement than climate-friendly funds alone

Reflecting these strong feelings towards climate-friendly funds, there is slightly more interest in this than in the broader concept of Responsible Investment, but the difference is small. There is, of course, a strong correlation between the two.

That said, for trustees looking at the relative merits of the two it would appear that, on balance, Responsible Investment is more likely to inspire engagement and trust. But again, the difference is relatively small.
Bringing it all together

Climate change headlines have dominated the news over the last two years and the ‘Greta Thunberg effect’ is certainly shifting member opinion. We have seen an increase in most of our key climate change metrics. This change has been driven by members who were previously sitting on the fence now taking a more positive stance. Member views drive a strong ‘call to action’ for trustees to consider climate change as they undertake their fiduciary duties.

But climate change is not members’ only concern. Members believe that the emotional and financial impact of Covid-19 will change society forever, and this is focusing their attention on how corporates respond. The pandemic has highlighted inequalities and shone a spotlight on the most vulnerable. The message to trustees is clear – the ‘S and G’ elements of Responsible Investment should not be overlooked.
In contrast to the 2018 survey, we did not find many material differences in opinion or actions by age cohort or generation; it appears that older members have ‘caught up’ with their younger counterparts. But there are important differences in the way in which men and women are thinking about what is important for them and their money, which will need to be carefully considered by trustees and investment managers.

The barriers to Responsible Investment are coming down and our survey shows a significant shift away from ‘I don’t know’ to a more positive member view on Responsible Investment. But a key issue still remains. Members will need help to appreciate how investing actually works to understand why Responsible Investment is important to them, and they believe that their schemes are doing more than is actually the case. We have not observed any significant progress in either of these issues over the last two years.

But once the basic tenets have been grasped, our research once again highlights that the way DC pension money is currently being invested does not align well with members’ stated beliefs and behaviours. Furthermore, the gap between members’ expectations, as outlined in this research, and trustees’ actions appears to be widening. The UK Sustainable Investment and Finance Association (UKSIF) review found that “policies are mostly vague and trustees commit to few concrete actions”3. Signposting to Statements of Investment Principles (SIPs) is generally poor, and statements are often not written for the layperson. As more and more populist initiatives emerge (such as the Make My Money Matter campaign led by the filmmaker Richard Curtis), this will only serve to further strengthen member views. The big question will be whether schemes which do not take on board Responsible Investment can be truly said to be acting in members’ interests?

There is no doubt that pensions are in for a rocky ride over the next couple of years as the fallout from Covid-19 becomes clear. The large fall in stock markets has shaken members’ already tenuous faith in pensions, as evidenced by large withdrawals since April 2020 under pension freedoms. There will be tough economic times ahead, which will force some members to make difficult financial choices.

As an industry, we will need to help members look beyond the short-term and motivate them to keep on paying into pensions. Showing members how their pension money is working for the good of society is a very powerful tool, resonates well and has the potential to drive members’ interest and engagement in their pensions – issues which the industry has been struggling to resolve for many years.

Reference
3 “Changing course?”, (UKSIF, 2020)
Appendix:
About the members who were surveyed