Legal & General Investment Management
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Ballooning inflation sucks the air out of savers' climate commitments – LGIM pensions survey

- Climate is now the priority: 57% say it's more important than COVID, up from 49% last year
- Nearly six in 10 respondents want to slash their pension's exposure to fossil fuels, but not at any cost
- Generations are split, with younger savers convinced that axing fossil fuels boosts fund returns, and keener to pay more for a net-zero pension
- However, Gen Z are not 'ESG extremists': Over twice as many 'Z'ers as Boomers want to stay invested in favoured brand Boohoo AFTER reading supply-chain and working-practice criticisms

As the cost of living shoots up, defined contributions (DC) members' net-zero pension ambitions are shrinking, according to new research of 4,500 savers from Legal & General Investment Management (LGIM).

The research found that climate is now a more important long-term priority than the COVID-19 pandemic for nearly 60% (57%), a figure which has risen from less than half (49%) since 2021. Following the publicity surrounding COP 26 last year and the growing public understanding of the impact of climate change, the number of respondents unaware of the term 'net zero' fell from 25% to 17% since 2021. Encouragingly, demand for a net-zero pension was nearly equally strong for older savers in decumulation, those closer to their retirement (84%) as accumulation, those closer to the beginning of their retirement savings journey (87%)*.

Nearly six out of 10 respondents (59%, 8% more than in 2021) want to significantly reduce their pension's exposure to fossil fuels and the number who would like their pension to have a net-zero target so long as there is no impact on financial performance increased from 58% to 62%.

However, with inflation surging at 5.5% and a number of cost of living increases about to bite, savers' climate commitments do not come at any cost. The number who would divest from fossil fuels irrespective of financial returns has dipped by 7%, to 25%, since 2021. Similarly, the number who say they want their pension to have a net-zero target, regardless of performance fell from 30% in 2021 to 25% this year. Meanwhile, those who wanted their investments to remain as diversified as possible – targeting maximum returns, held steady at 16%.

Rita Butler-Jones, co-head of DC at LGIM commented, *"This research demonstrates the challenges DC savers are facing amidst the complexities of the current economic environment. It underlines the role providers have to play in reassuring clients about their savings in volatile times. While we are encouraged by the increased appetite for net zero pensions, 2022 has underlined that this really isn't at any cost. It is clear that savers' see their pension's main purpose as saving for their retirement."*

The research also highlighted some interesting disparities between generations. On the surface, Gen Z may seem like the generation more interested in Environmental Social & Governance (ESG) issues, but that isn't necessarily the case. They are more heavily influenced by social media, divestment campaigns and pressure groups, with nearly 60% of Gen Z (59%) and Millennials (57%) say they are more likely to want to divest, rather than engage, because of the things they have seen in the media, compared to just over four in ten Boomers (43%).

It is also not the case when it comes to divesting from sinful brands with strong name recognition among their peers, younger generations are happier to stay invested. For example, the percentage of 18-24 year olds keen to take an engagement rather than divestment approach with Boohoo*, having explored their supply-chain and working practices in a case study, is over double that of those in the 64+ age category (31% versus 14%).

Stuart Murphy, co-head of DC at LGIM added, "*It is clear that savers are engaged but there is a gap between the issues and companies they care most about. The DC market is moving towards increased member engagement and savers are more and more interested in the companies they invest in through their pension. The move to an expression of wish and split voting, where savers get to give their views or potentially vote on companies, will see this change even further. Our research draws some interesting conclusions and it is positive to see a broad members* *preference for engaging with companies, rather than always opting for divestment. We see that as a last resort when it comes to engagement, and believe an active ownership approach is central to effective engagement with our investee companies."*

The disparity between generations was also clear when it came to performance and view on climate change and the energy sector. Most respondents were keen to reduce their pension's exposure to fossil fuels overall, but this figure falls as the ages climb, with 78% of Baby Boomers in favour, compared with nearly nine in ten (89%) of Gen Z respondents. The gap widens once respondents are asked if they would pay more for a net-zero pension. 81% of Gen Z workers say they are willing to pay more for a pension with net-zero carbon emissions, compared with less than half (48%) of Baby Boomers in decumulation.

Older savers still need convincing that ESG risks can affect performance. When asked if they think pension funds which have a net-zero target will perform better in the long run, three-quarters of Gen Z agree, but less than half (48%) of Boomers. Ultimately, as we tentatively emerge from the pandemic, we encourage members of all generations not to let financial fears take a chunk out of their climate commitments.

Notes to editors

* LGIM Active ownership report 2020 2021

About the survey:

LGIM DC saver research surveyed a total of 4,500 defined contribution (DC) pension scheme members based in the UK and Ireland in the below age categories between January and February 2022. Of those 4,000 were British:

- Baby Boomers ('Boomers'): Born between 1946 and 1964
- Generation X ('Xers'): Born between 1965 and 1980
- Millennials: Born between 1981 and 1996
- Generation Z ('Gen Z'): Born between 1997 and 2012

Key risks:

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.Views expressed are of LGIM as at 7 April 2022.

About Legal & General Investment Management

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets under management of £1.42 trillion (€1.69 trillion)[1]. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 50 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property, and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

Further information

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[1]LGIM internal data as at 31 December 2021. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

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