Legal & General Group Plc
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Private markets can help support greater pensions engagement among DC members

L&G's latest DC member research finds preference among pension savers to include allocations to private market assets such as affordable housing and clean energy in their pension, mirroring the investment priorities of DC schemes.

London, 25 September 2024 – Legal & General ('L&G') has today published its annual Defined Contribution ('DC') member research, which finds that the integration of private market assets such as affordable housing, clean energy infrastructure and innovative tech companies can help to encourage UK savers to engage with and contribute more to their pensions[1],

L&G's research shows that these areas are also a priority at a scheme level, with DC asset allocation professionals placing emphasis on diversification and capital growth as they seek to increase returns and long-term outcomes for members.

Private markets hold potential to boost engagement and contributions

The latest findings provide encouragement that private markets could help in boosting the UK's level of pension engagement, which continues to remain low. The latest research from L&G finds over half (58%) of DC savers do not know that their pension money can be used to change the way companies work and the society we live in.

Nearly three-quarters (68%) of DC savers agree they would feel more engaged with their pension if it was invested in assets like affordable housing, helping to address the housing shortage in the UK. 63% of members agreed that if their pension was helping to drive the energy transition by investing in clean energy, they'd feel more engaged, while 57% said that allocations to spin-out businesses from university science and technology departments would boost their engagement.

Building on last year's results, today's research supports the view that people's engagement with their pension is linked to the tangible impact they feel their contributions are making on society.

The inclusion of private markets in pension portfolios could not only drive engagement, but potentially higher contributions too. Over half (55% and 52% respectively) of respondents agreed that they would be inclined to pay more into their pension if it was invested in affordable housing or for allocations to clean energy, with 49% saying the same for innovative start-ups.

Alongside the societal benefits, respondents also recognise the potential enhanced returns private markets can offer – 60% of respondents believe investing in affordable housing could result in better returns for their portfolio, while 58% of savers believe that investing in clean energy has the potential to offer better returns.

DC schemes prioritising environmental and social outcomes over next two years

In further research, L&G has also polled DC scheme decision makers about their attitudes to the future of their private market allocations[2].

[1] The member research was conducted in April 2024 via a survey of 2,024 UK DC scheme members, assessing how the integration of these assets into DC portfolios can affect attitudes towards their pension.
[2] This was conducted in August 2024 via a survey of 30 DC schemes.

Just as members report a preference for their pensions to invest in environmental and socially orientated assets, DC schemes are also prioritising these outcomes in their private market investments, with 80% saying this trend is set to accelerate over the next two years. The climate transition, digital transformation & AI and healthcare hold most appeal for DC schemes when considering thematic opportunities in private markets.

When focused on environmental outcomes, schemes overwhelmingly say clean, renewable energy infrastructure is their biggest priority (87%), followed by transmission assets (47%). From a social perspective, half (50%) of schemes believe social issues in private market investments will enhance long-term returns, with 43% prioritising allocations to affordable housing.

Savers appreciate role of private markets at right time in investment journey

While aware of the positive societal benefits and potentially enhanced returns, DC savers are also mindful of the broader considerations that need to be factored into investing in private markets. Of the members polled, 82% were concerned around there being potentially more risk of an investment loss compared with traditional investments. There are varying risk and return profiles for different private markets asset classes – affordable housing, for example, offers high potential risk adjusted returns and a relatively low risk profile compared with other assets, due to long-term societal demand for new homes in the UK. These findings suggest that there is therefore an important role for member education around how a diversified pool of private market investments can aim to fit into a DC portfolio.

Notably, these concerns were higher among older generations, with 73% of respondents aged 50+ worried that investing some of their pension money in assets that might not be quickly sold could carry the risk that they will not be able to easily access their pension money when the time comes. The findings indicate a view among members that wider exposure to private markets might be better suited for those in the earlier growth stages of a pension, acknowledging the importance of integrating private markets with varying levels of exposure at different stages of their retirement journey, as well as diversifying appropriately.

The research highlights that Millennials and Gen Zs are particularly positive about the integration of private markets into their pension portfolios. 74% of respondents in these categories would feel more positive about their pension if their funds were being used to help support affordable housing schemes, given the challenges facing these generations in getting onto the housing ladder. 81% of Generation Z would be willing to pay more for a pension which was helping to drive forward technology and innovation in the UK, compared with 51% of Baby Boomers.

These results suggest that private markets could play an important role in delivering for DC savers that are just starting to enter the workplace and thinking about a pension for the first time.

Rita Butler-Jones, Head of Defined Contribution, Legal & General: "Greater pension engagement is a puzzle the UK pensions industry has been trying to solve for decades. As we see growing allocations of pension capital to private markets, it is encouraging that when savers are aware that their pensions can be used to drive positive real world change, it fosters an increased sense of engagement, wellbeing and connectivity with their retirement pot. Private markets could therefore not only help to drive greater potential returns across UK pensions, but potentially greater member engagement and contributions too.

"We are committed to opening up private markets for DC savers, which is why earlier this year we launched the L&G Private Markets Access Fund. We want to inspire DC members into greater engagement with their pension by investing in tangible assets which can aim to benefit the real economy, while also providing access to the potential returns on offer through private markets."

L&G launched its Private Markets Access Fund in July 2024. The fund is designed to offer DC schemes a single point of access to a diversified portfolio of private market assets, including affordable housing, clean power infrastructure and university spin-outs. The fund formed a key part of L&G's strategic update in June, in which the Group announced its intention to scale up its £52 billion Private Markets platform[3] and target growth in its Workplace Defined Contribution pensions business. This includes opening up access to existing strategies such as the L&G Clean Power (Europe) Fund and the L&G Build to Rent Fund, as well as new strategies such as Affordable Housing, to meet DC pension client demand for private markets exposure.

[3] Data as at 30 June 2024.

-ENDS-

Notes to editors

The DC member research used the following time periods to define the generations:

- Baby Boomers: Born between 1946 and 1964
- Generation X: Born between 1965 and 1980
- Millennials: Born between 1981 and 1996
- Generation Z: Born between 1997 and 2012

The asset owner research polled 30 investment asset allocation professionals at DC schemes.

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We have a highly synergistic business model, which continues to drive strong returns. We are a leading international player in Institutional Retirement, in Retail Savings and Protection, and in both public and private markets through our Asset Management division. Across the Group, we are committed to responsible investing and dedicated to serving the long-term savings and investment needs of customers and society.

As at 7 June 2024, we estimate the Group's Solvency II coverage ratio to be 224%.

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