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Money listens: The positive power of pensions

LGIM DC's member survey 2021

LGIM

Contents

Just over

1 in 10

members had heard of **‘net zero’** and understood how it relates to **where their pension is invested**

51%

...of members said **COVID-19**...

and...

49%

...of members said **climate change**...

...would have a **bigger long-term effect** on society

Despite the **financial impacts of the pandemic,**

84%

of members want to **reduce their pension’s exposure** to **fossil fuels**

The proportion of members who might **pay more** into their **pension** as a result of **being told more what is really going on** with **their money** has jumped from

14% to 25%

Those preferring to **engage first** and **then divest** has **increased substantially** between **2019** and **2021** from:

49% to 57%

Very few aspects of life on Earth have been left untouched by the seismic shock that COVID-19 delivered to societies and economies last year. Pensions are no exception. 18 months ago, a survey by Legal & General Investment Management (LGIM) found that environmental, social, and governance (ESG) issues ranked highly in scheme members' pension priorities. But today, has the emotional and financial turmoil of the pandemic forged new concerns in savers' minds?

We wanted to find out just how much had changed, and why, so we ran a second survey, this time with a focus on views across industries as well as generations and genders.

To contextualise member views on ESG issues today, we first explored the extent to which COVID-19 has affected savers' financial well-being. Section One offers a deep dive into which generations which have been hardest hit, and who is more likely to prioritise returns.

During 2019, environmental issues were of most concern to members.

Of the three generations we surveyed: Millennials, Generation X and Baby Boomers, Millennials were the most likely to want their investments to reflect climate change concerns. Is this still the case? We reveal the answer in Section Two. We also explored if other demands, such as better access to vaccines, have supplanted worries about global warming, and if this move represents a permanent shift in attitudes. Find out more in Section Three.

In our last survey almost half of members wanted their pension company to engage with ESG offenders before divesting. But is this still the case as retirement plans are increasingly under threat? Section Four covers this in depth.

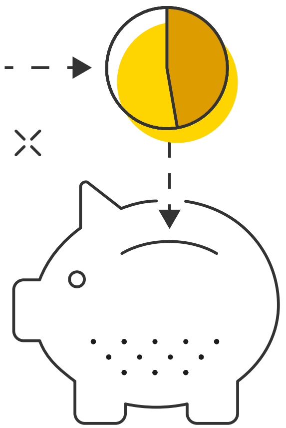
The answers to these questions will have been shaped, in part, by savers' lived experiences over the last year.

Section 1

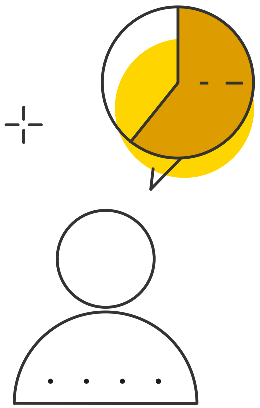
Less hurry, more worry: Finances in the time of COVID

48%

of members said that they had **managed to save more** during the pandemic



61%

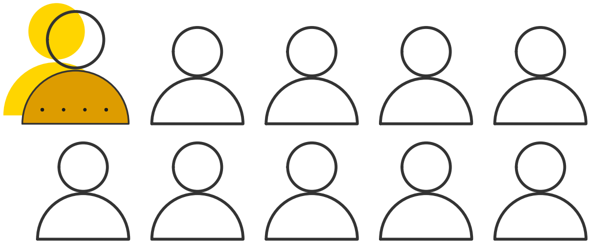


of Millennials **feel more anxious** about their financial situation after the last year, **compared** with just **43% of Baby Boomers**

Just

1 in 10

millenials who managed to **save money** during the pandemic plan to **use it for retirement**, compared to nearly **four in ten Baby Boomers**



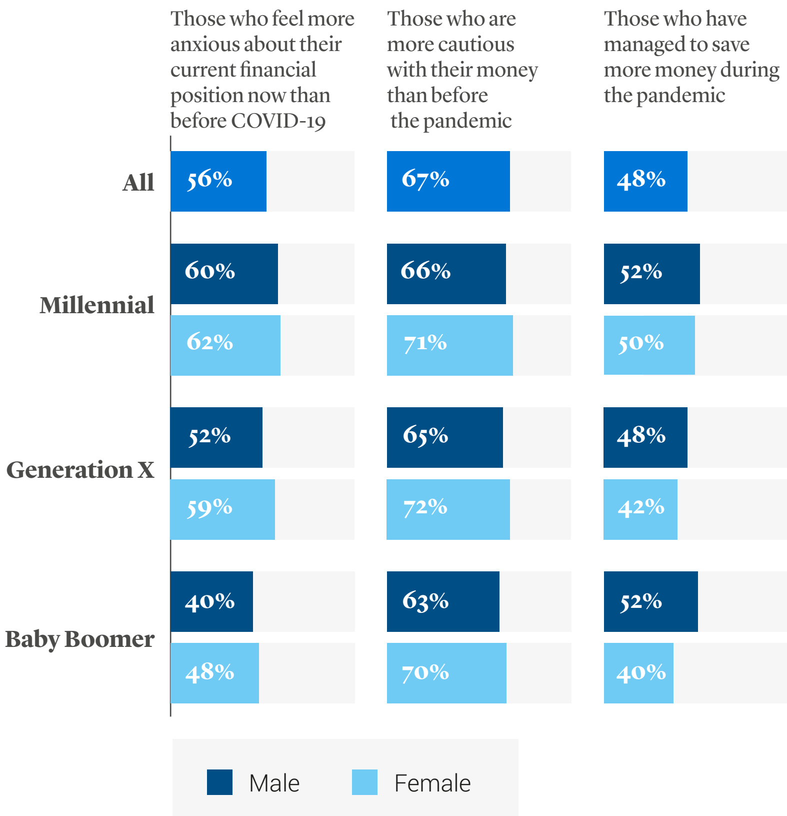
Not all created equal

Despite its profound impact on many people's finances, the pandemic has been far from the great leveller. Our research with pension members supports the emerging body of evidence that the pandemic has devastated the finances of some families while leaving those of others virtually unscathed – or even in better shape.

Overall, just over half (56%) of all members feel more anxious about their current financial situation now than before COVID-19. Yet younger generations were far more likely to confirm this than older generations: 61% of Millennials feel more anxious compared with just 43% of Baby Boomers.

Figure 1: More money, more problems? Despite being as likely to save during the pandemic as other generations, Millennials worry more about their finances now

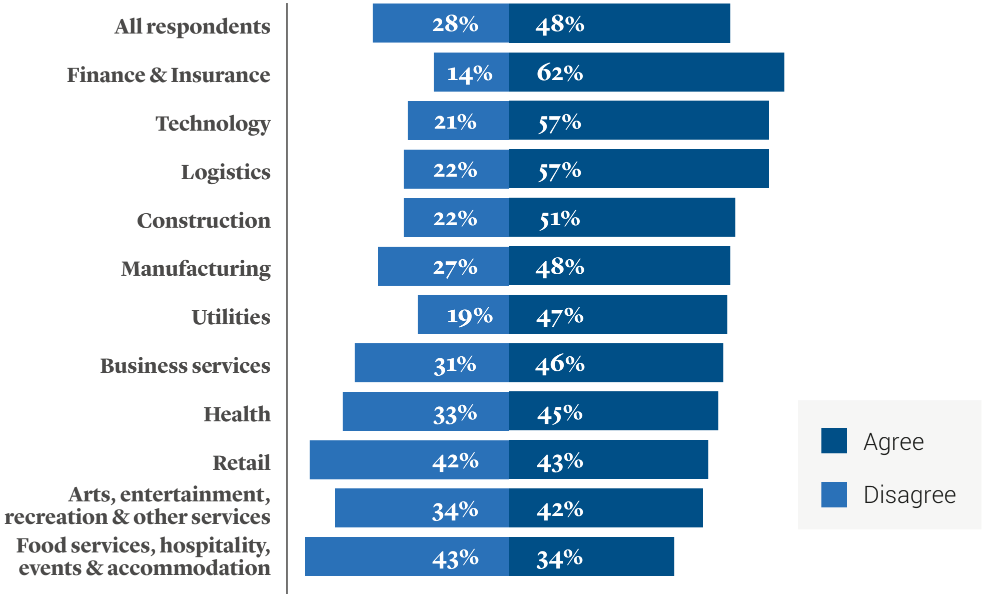
Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,057), excluding 'don't know' responses. Question: 'Thinking specifically about your savings for retirement, to what extent to you agree or disagree with the following statements:' I feel more anxious about my current financial situation; I am more cautious with my money than I was before; I have managed to save more money during the pandemic.



Almost half (48%) of members said that they had managed to save more over the last year, mostly because of the limitations on their activities. But, in contrast, three in 10 (28%) did not:

- Female Gen Xers and Boomers and workers in sectors that were hard hit by redundancies or furlough during the pandemic (including Food Services, Hospitality, Events & Accommodation), are the least likely to have managed to save more money during the pandemic
- By contrast, six in 10 white-collar workers in the Finance & Insurance and Technology sectors managed to save more

Figure 2: It's a rich man's world: Workers in well-paid sectors were likely to save more during the pandemic



Source: LGIM data, April 2021 Base: All adults currently contributing to a workplace pension (2,574). Question: Thinking specifically about your savings for retirement, to what extent do you agree or disagree with the following statement, 'I have managed to save more money during the pandemic'.

Putting planning on hold

Many members haven't converted a short-term savings boost into a long-term retirement boon.

Despite many adding to their savings during the pandemic, few (17%) have earmarked some or all of this money for their retirement. By age, the differences are more pronounced. Just one in 10 (9%) Millennials who managed to save money during the pandemic intend to use some of their 'accidental savings' for retirement, compared with nearly four in 10 (38%) Baby Boomers. But given Millennials are more likely to have little or no defined benefit (DB) provision, are less likely to be homeowners and are less likely to be setting aside enough in contributions to fund a moderate lifestyle in retirement, they would perhaps benefit the most from thinking twice about these plans.

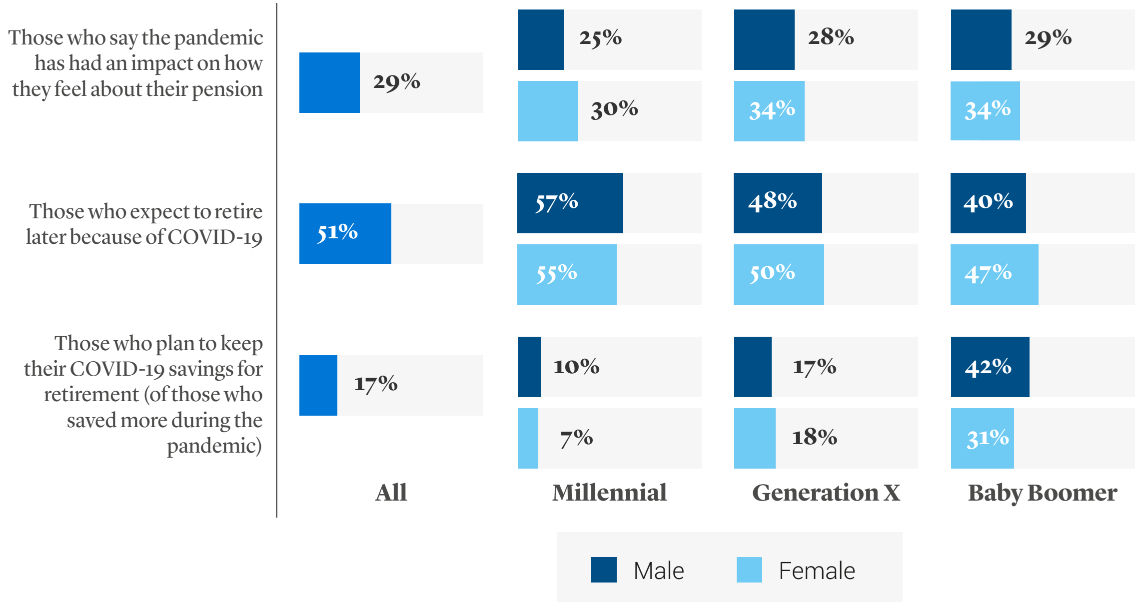


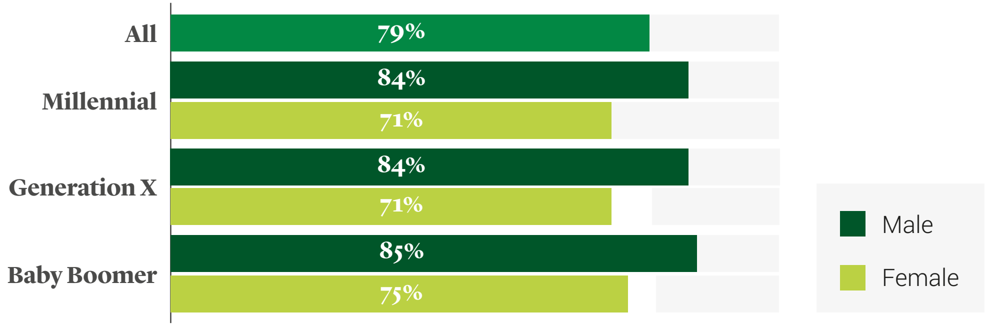
Figure 3: Not adding up: While most members expect to work longer, few want to fund their retirement from any pandemic savings boost

Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,057), excluding 'don't know' responses. Question: 'Thinking specifically about your savings for retirement, to what extent to you agree or disagree with the following statements:' The COVID-19 pandemic has had no impact on the way I feel about my pension savings; I expect to retire later than I had thought/ 'You said you have managed to save more money during the pandemic. Do you have any specific plans for these savings?'

A (very) long engagement

Unfortunately, COVID-19 has done little to encourage members to engage more with their pensions. Similar to the results from our 2019 survey, when we asked members to explain what happens to their pension money once it leaves their pay packet, many were at a loss. At best, they could say their money is 'invested' – and indeed 79% of members in our survey said they were aware of this. However, when probed more, they often do not really know what this means. They simply reflect back the compliance risk warnings that the industry gives: that their money can go up or down and that they have a choice of a high, medium, or low-risk investment strategy. It is perhaps not surprising, therefore, that 'investing' is often linked to the language of gambling.

Figure 4: False consciousness? Nearly 80% are aware that their pension is invested – but many are not aware of what 'invested' means



Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,056) Question: 'Before today, were you aware that the money in your workplace pension is invested?'

Two-thirds (64%) of members had no idea that 'investing' really means that they own small parts of businesses. Women were more likely to admit this than men:

"So investment is giving some of your money to someone and expecting a certain percentage of return, depending on what risk you take… So, I suppose it's not as bad as going into William Hill and backing a horse, but to some degree it is a gamble."
Male, Generation X

> "So investment is giving some of your money to someone and expecting a certain percentage of return, depending on what risk you take...
>
> So, I suppose it's not as bad as going into William Hill and backing a horse, but to some degree it is a gamble."

Male, Generation X

A nudge in the right direction

COVID-19 has opened up fault lines in members' finances across generations, sectors and genders – and in their financial planning. Many of the barriers which existed the last time we ran the survey: including members' knowledge of and confidence in their pension investments, still exist, and may have been exacerbated by the pandemic. Financially, those in lower-paid sectors were disproportionately hit as they saved less during the pandemic, and half of all the respondents now expect to retire later than planned.

But planning to retire later hasn't seen members plump up their pensions with extra short-term cash. Without a 'nudge', even those with more cash in their pockets are not necessarily going to use those savings to increase their retirement income. Millennials will need strong messages and models that show the big difference that investing even small amounts now can make on their expected retirement age. Boomers and Gen Xers will need to see that keeping money locked away in cash accounts is guaranteed to lose them money over time as inflation takes its toll.

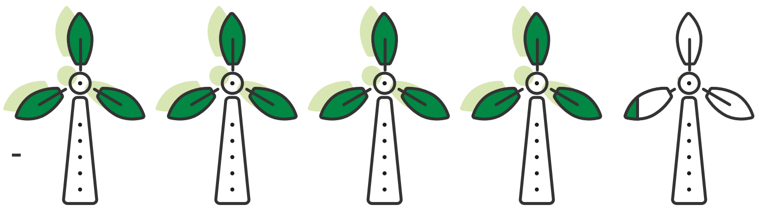
Rather than relying on paper statements to do the heavy lifting, interactive and personalised formats such as video benefit statements can help engage. It might involve taking a broader perspective on retirement, marrying retirement to broader financial wellbeing initiatives to make it tangible for those who are tempted to 'stick their head in the sand' as they worry about the effect of the pandemic on their savings.

Against this backdrop of financial turmoil, we might expect ESG considerations to take a backseat. But the story emerging from our data could not be more different. Now, more than ever, members are embracing ESG and looking to their pension providers to make a change.

Section 2

Greener than thou: Finding this year's greenest generation

Despite the **financial impacts of the pandemic,**

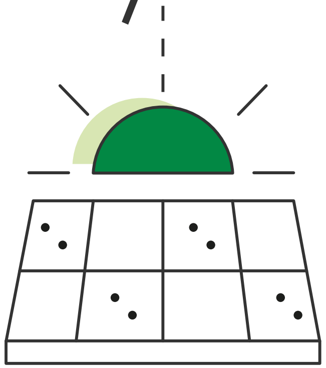


84%

of members want to **reduce their pension's exposure** to **fossil fuels**

Almost

1/2

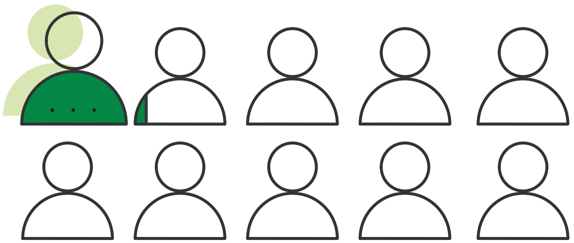


of Millennials only want their pension provider to **invest in companies** that can demonstrate a **credible strategy** to prepare for a **low-carbon economy**

Just over

1 in 10

members had heard of **'net zero'** and understood how it relates to **where their pension is invested**



Three quarters of savers (74%) are now more aware that what happens in the rest of the world can have an impact on life in the UK.

The future's bright?

For savers, it isn't easy being green, but COVID-19 hasn't necessarily made it any harder.

Two-thirds (64%) of all members have become more concerned about the impact of human action on the planet due to the crisis. Rather than deprioritising environmental issues in favour of immediate concerns, the pandemic thrust them into sharper focus as members explicitly linked environmental issues with their current situation:

"I can't remember where I heard this – it might have been David Attenborough – and they said something along the lines of things like COVID could become more prominent or could happen more regularly as we cut down trees... but I don't know what to do. I wish I could do more."
Female, Generation X

Green for go

Overall, members increasingly favour going green in their pension.

More than eight in 10 (84%) members now want to significantly reduce their pension's exposure to the fossil fuel industry (up from 78% 18 months ago). Just one in six (16%) want their pension to be as diversified as possible rather than reducing its exposure to the fossil fuel industry; a significant reduction from the 22% who said this 18 months ago.

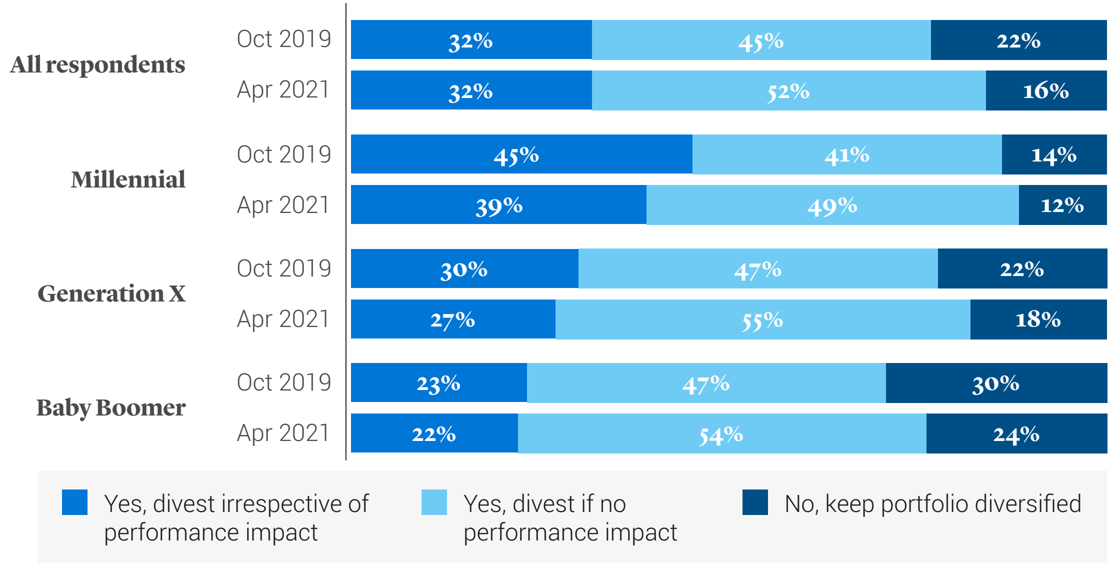
However, there is an important caveat – many members (52%) would only be willing to divest from fossil fuels if this does not affect financial performance. From our qualitative discussions, many would not want to divest if there was a significant long-term financial impact, but would be willing to divest if the impact was 'minor', say 5% or 10% in the value of their pot over the long-term.

That said, one in three (32%) members want their pension to divest from the fossil fuel sector irrespective of financial performance. Men are now more likely to take this stance, while women have moved in the opposite direction, perhaps due to the weakened financial confidence they expressed earlier on in the survey as a result of COVID.

The green list: Millennials cling on to the top spot

Of our three generations, Millennials still hold climate in the highest regard, even if their resolve is a little weather-beaten. 18 months ago we found that, more than any other group, Millennials would prefer to significantly reduce their pension's exposure to fossil fuel sectors irrespective of the impact this might have on performance. Given the financial difficulties faced by this generation as a result of the pandemic, we were encouraged to see that this picture has not significantly changed, with four in 10 (39%) still happy to take this stance.

Figure 5: COVID caution: The percentage of Millennials looking to divest regardless of the impact on their portfolio's financial performance has fallen

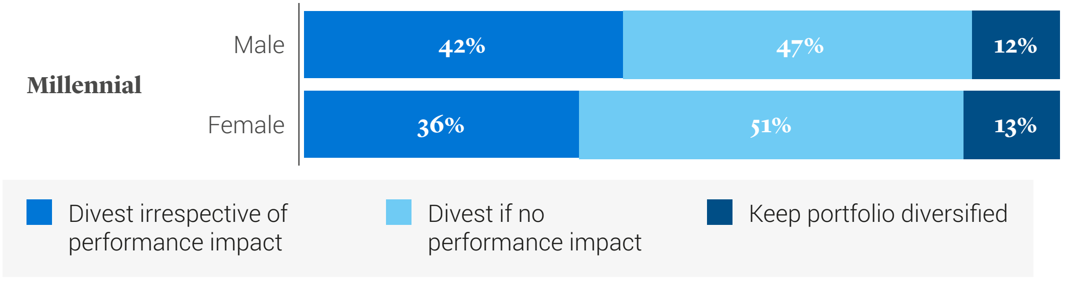


Source: LGIM data, October 2019/ April 2021. Base: All adults currently contributing to a workplace pension (October 19: 988/ April 21: 3,056) Question: 'Would you want your pension to significantly reduce its exposure to the fossil fuel industry?'

This means that over three times as many Millennials want a greener pension, regardless of any financial impact, as those who prefer to maximise returns.

The proportion of Millennial men who want to divest regardless of performance (42%) has not changed since our last survey. By contrast, Millennial women are feeling much less confident: they are now significantly less likely to want to divest irrespective of performance; 36% take this stance today compared with 46% in 2019.

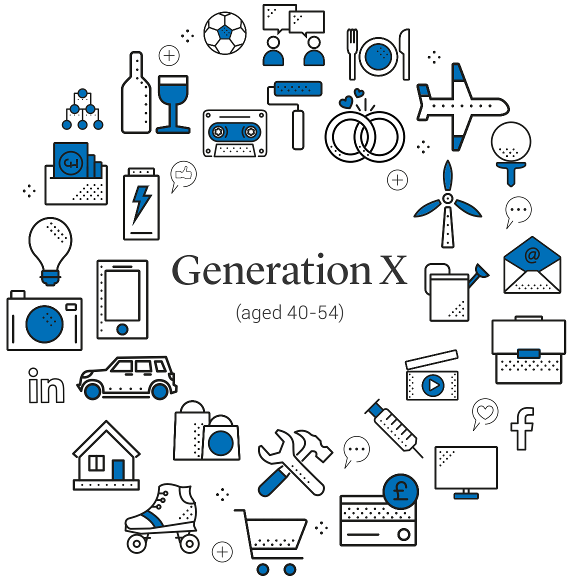
Figure 6: Trading places: Men are more likely to want to divest, irrespective of performance impact, than women



Source: LGIM data, April 2021. Base: All adults aged 21-39 currently contributing to a workplace pension (1,372) Question: 'Would you want your pension to significantly reduce its exposure to the fossil fuel industry?'

When thinking about the actions pension providers should take to reduce carbon impacts, Millennials are strongly in favour of their pension provider engaging with firms to put pressure on them to prepare for a low-carbon economy rather than avoiding companies with a high carbon footprint outright; with four in five (79%) Millennials favouring engagement.

The message from this generation is clear: they want their pension to take a lead in reducing carbon emissions before it's too late. Equally, a segment of Millennials feel much more financially vulnerable after the pandemic, which was represented in a new consideration for financial returns from Millennial women, who were previously climate divestment champions.



No X-it: Still a halfway house, but closing the gap on Millennials

True to their position as the middle generation, in our last survey Generation X ('Gen X') represented a 'halfway house' between the other two generations in their attitudes to climate change. One year on, there has been no change to their 'stuck in the middle' status.

With Gen X increasingly reliant on DC pensions for their financial wellbeing in retirement and yet not expected to benefit as much from automatic enrolment (AE) as their Millennial counterparts, it's perhaps no surprise to see that most (55%) would only want their pension to divest from fossil fuels if it had no material impact on the performance of their fund, up from 47% in our last survey.

On fossil fuels, the views of Gen X men and women are now more closely aligned. Just 16% of women and one in five men now want their pension investments to be as diversified as possible rather than reduce their exposure to the fossil-fuel industry; a significant reduction on the 27% who felt this way in 2019.

However, when thinking about the actions providers should take to reduce carbon impacts, Gen X women are more likely than their male contemporaries to want their pension company to avoid companies with a high carbon footprint entirely (27% want this, up from 19% 18 months ago).

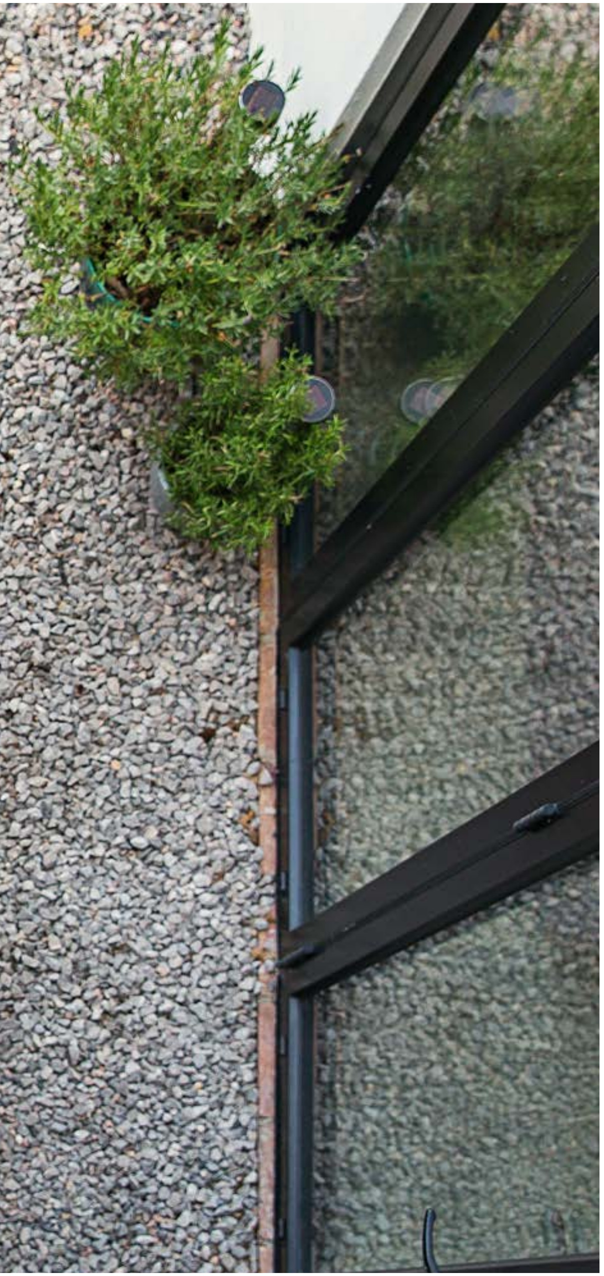
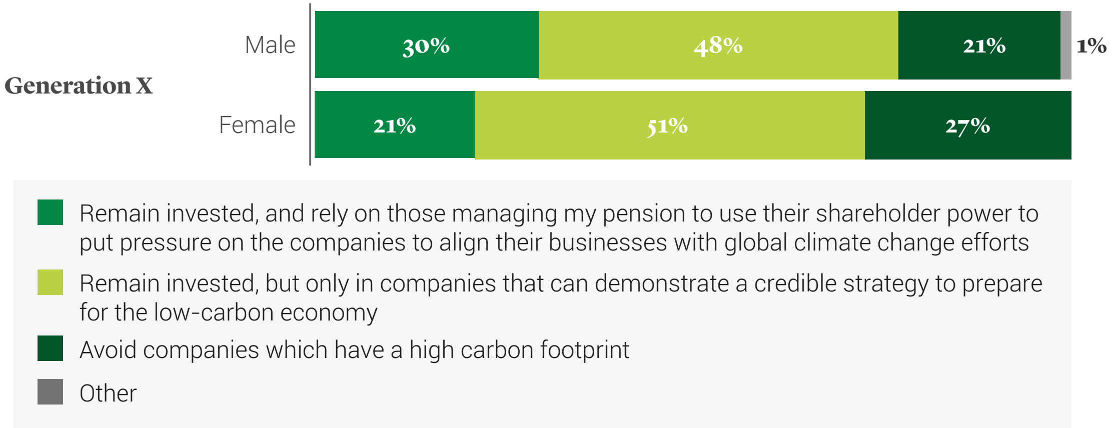


Figure 8: X-risk: Female Xers are keener to kick carbon laggards to the curb



Source: LGIM data, April 2021. Base: All adults aged 40-54 currently contributing to a workplace pension (1,110). Question: 'If you knew that your pension was invested in companies that have attracted criticism for their carbon impact, would you prefer to?'

These results send out an early warning message to pension providers and trustees. As Boomers move steadily into their retirement years, the balance of power will shift as Gen X starts to hold the largest share of pension assets. As such, their views will be an important factor in shaping the direction of travel over the next 10 years. This cohort can no longer be assumed to be simply chasing maximum financial returns, regardless of the impact on the planet. They are increasingly keen that their voices are heard:

"There's no point if we're trying to invest for the future and our children's future if we're not taking a stance now... What kind of a world are they going to inherit and be able to spend their money in?"
Male, Generation X

Baby Boomers
(aged 55-65)

Boomers really are OK!

Since our last survey, Baby Boomers ('Boomers') have had an about-face on climate issues which might give their younger detractors pause for thought.

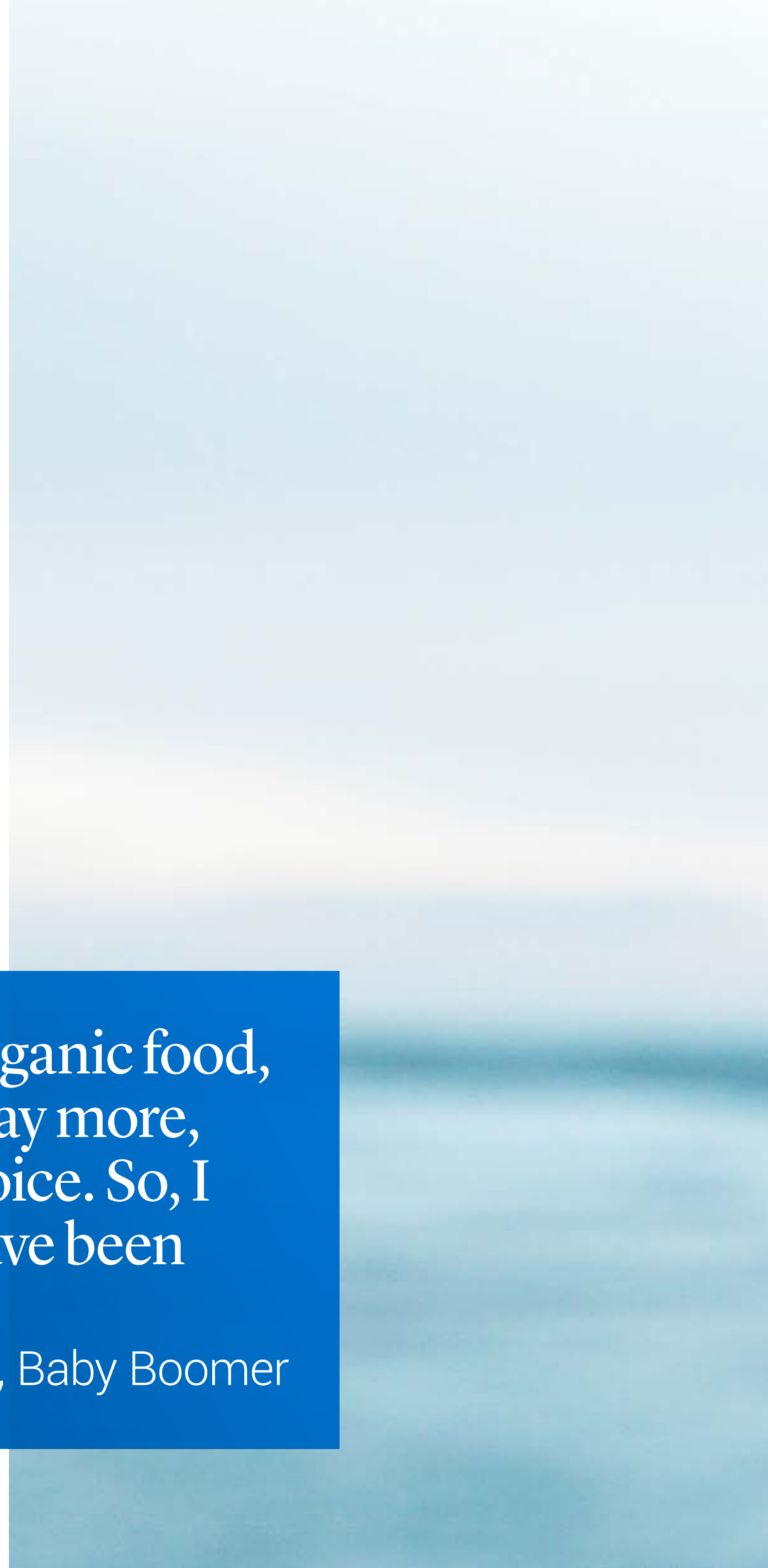
Eighteen months ago, Baby Boomers were more likely than any other generation to want to keep their pension investments diversified, even if that meant investing in fossil fuels.

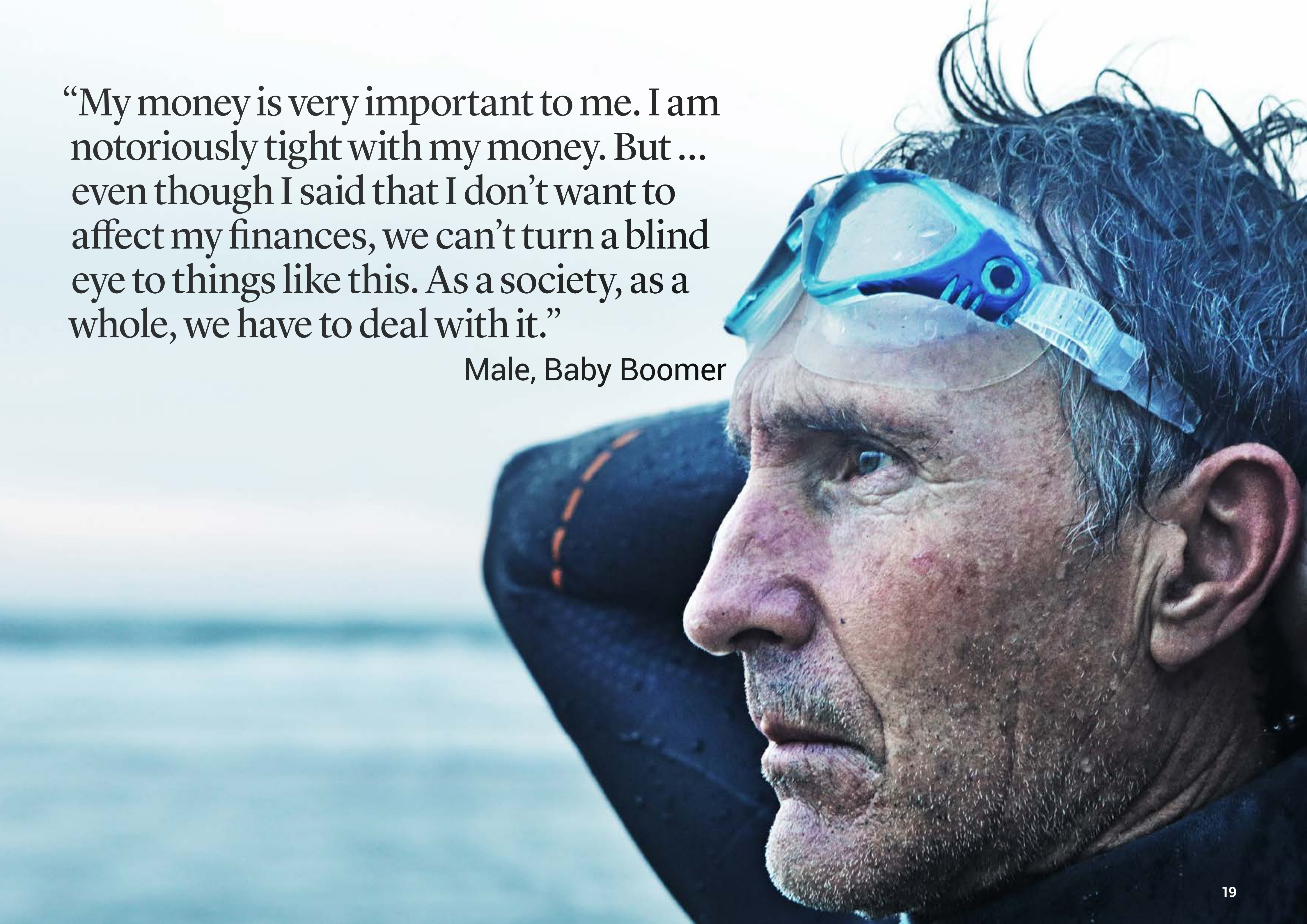
Boomers are still twice as likely as Millennials to want to keep pensions as diversified as possible, but the proportion who feel this way has dropped. On the other hand, our survey also shows that the same number of Boomers (22%) are now happy to divest into a greener pension regardless of performance. Similarly, when asked what they would want to do if they knew their pension money was invested in companies that have attracted criticism for their carbon impact, 26% of Boomers would now want to avoid companies with a high carbon footprint, double the number from our last survey.

The increased coverage of climate in the mainstream media, including poster-boy David Attenborough, was cited again as the reason for this new attention, important for a generation who rely on news media and terrestrial TV. And so pension providers looking for a definitive picture of the preferences of this generation are facing a much finer balancing act when compared to Millennials, or even Gen Xers.

In addition, while cost and worries about future returns remain the key barriers, we heard many Boomers express real concern about the impact of climate change on their children and grandchildren. In an ideal world, most Boomers would want to have their cake and eat it, accepting diversification away from fossil fuels if it has no material effect on their returns and remaining investing in companies with a credible strategy to prepare for the low-carbon economy.

> "It's a bit like buying organic food, isn't it? You've got to pay more, but you've got that choice. So, I would have liked to have been given a choice."
>
> Female, Baby Boomer





> "My money is very important to me. I am notoriously tight with my money. But … even though I said that I don't want to affect my finances, we can't turn a blind eye to things like this. As a society, as a whole, we have to deal with it."

Male, Baby Boomer

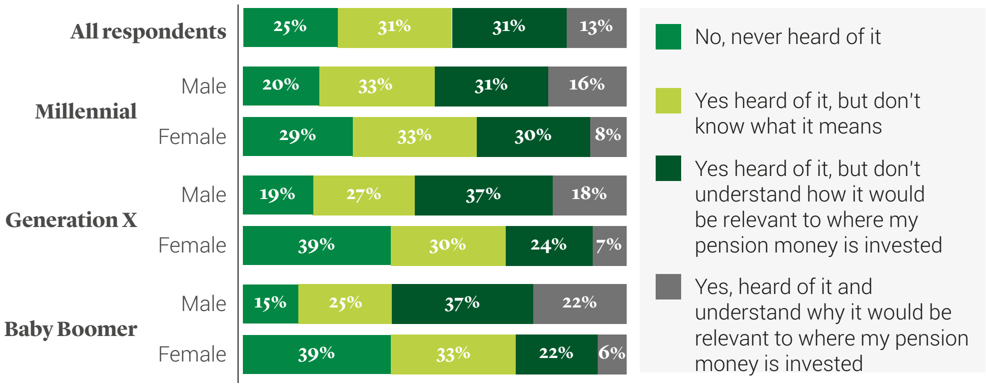
From zero to hero?

It's not just a simple question of returns versus exclusion. Specific climate initiatives seem like the ideal way to galvanise member support, but as we discovered, it's important to build understanding first.

The race to net zero carbon emissions is underway as countries across the world set ambitious targets to stem rising temperatures. Major pension funds, worth over £900 billion, are already committing to hitting net zero by 2050 or earlier[1].

Yet across all three generations, there was some confusion about what 'net zero' is all about. Our survey uncovered that one in four (25%) have never heard of the term, and a further three in ten (31%) have heard of it but could not say what it means. A minority in our qualitative interviews were so confused they thought it meant that their money would be earning zero returns.

Figure 10: Just 13% made the link between 'net zero' and pensions without any prompt



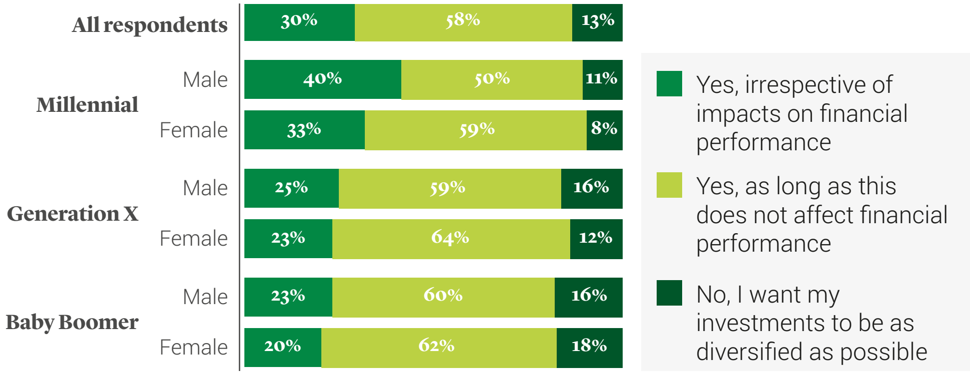
Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,056) Question: 'Have you heard of the term 'net zero' in relation to climate change?'

[1] https://www.theguardian.com/business/2021/mar/10/major-uk-pension-funds-worth-nearly-900bn-commit-to-net-zero

Just over one in 10 (13%) members had heard of the term 'net zero' and said that they understood why it would be relevant to where their pension money is invested. Millennial and Gen X males were twice as likely to make this connection as their female counterparts. This suggests there is a lot of work to be done to help members understand what is happening to their pension money, and why transitioning to net zero matters.

After a simple explanation, members were overwhelmingly in favour of their pension moving in this direction, with just one in 10 (13%) preferring instead for their pension investments to be as diversified as possible. Crucially, the barrier is not knowing rather than not caring.

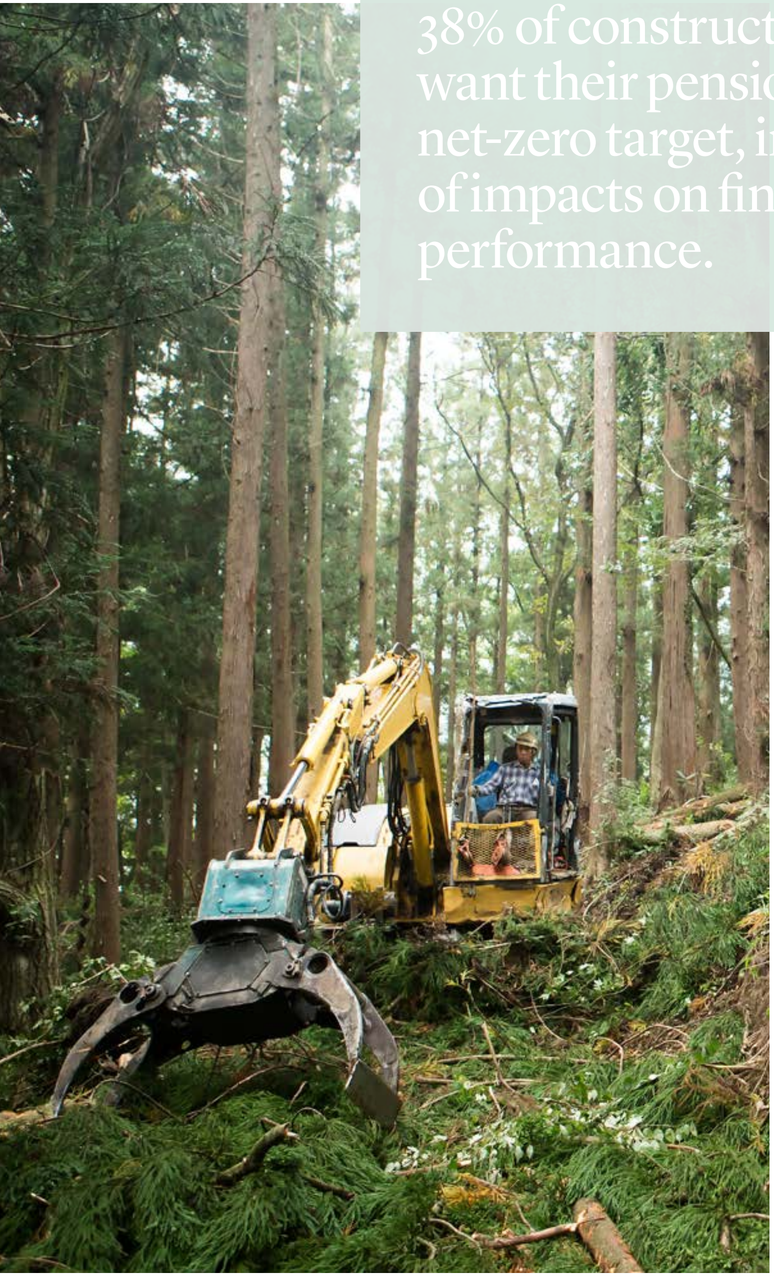
Figure 11: Got it in the net: Nearly a third of savers want their pension to have a net-zero target, regardless of the financial return



Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,056). Question: 'Would you want your pension to have a net-zero target, which would mean balancing the money invested in carbon-intensive businesses against other lower carbon investments?'

"My money is very important to me. I am notoriously tight with my money. But … even though I said that I don't want to affect my finances, we can't turn a blind eye to things like this. As a society, as a whole, we have to deal with it."
Male, Baby Boomer

However, it's important to recognise that most members (58%) are only willing to have a net-zero target if this does not affect financial performance. Overall, women feel more strongly about this than men. Women are generally more risk-averse than men and also generally have smaller pensions to support them in retirement, so may be less confident in potentially sacrificing investment performance to get to net zero.



38% of construction workers want their pension to have a net-zero target, irrespective of impacts on financial performance.

Our survey suggests that employees in certain sectors, such as Construction and Arts & Entertainment, might be more likely to demand a net-zero pension than others.

Given a little more time to reflect on the issue, the vast majority of our qualitative respondents, men and women alike, felt very strongly that would like their pension to be a 'net-zero hero', even if that meant slightly lower returns. For some, there was an expectation that any short-term dip in returns would be more than offset by increased growth in the future as their investments transitioned from 'dead industries' to the stars of the future. For others, it was simply the case that this was the right thing to do for the future of the planet and future generations of their family:

"I think in the short term if pension companies are going to go down that net-zero route, which on balance sounds a good idea, they might have a shortfall of returns. But long term, it's the right thing."
Male, Generation X

Once they found out that action was already being taken by some pension providers, members wanted to know what their pension provider was doing. If their provider was not one of the early adopters, they asked questions of both their pension provider and their employer:

"I am very positive and happy about it. When I get off of this call, I'll be telling my wife about it… You just told me that the pension company that I put my money into is investing in companies, which are the right companies to invest in, for multiple different reasons. So yeah, if you had told me the opposite… I would certainly be looking at reducing my contributions through work and investing privately."
Male, Generation X

Cooling the planet, cooling the jargon

More so than in 2019, members across generations want a greener pension. And it's reassuring that since our last survey, Baby Boomers have responded to the increased focus on climate which we have seen in the media over the past year-and-a-half. It's a bonus that they now perceive their pensions to be well-stocked enough to worry less about any potential returns sacrifice.

However, in the wake of the pandemic, it is now vulnerable groups rather than Boomers who need reassurance about their pension's primary purpose as a retirement savings vehicle, to accompany the positive messages about what engagement with companies can achieve.

Although Millennials came out as 2019's most idealistic generation by a long way, and retained their spot as the greenest generation this year, it's clear that they are feeling the effects of COVID-19 more than their financially confident counterparts in older generations in their reduced desire to divest when there is a potential impact on performance. That this cohort was also less likely to plough any additional savings acquired during the pandemic into their pension than Boomers should serve as a wake-up call to providers and trustees.

In 2019, women were keener than men to divest from fossil fuels regardless of the effect on financial returns. Now, perhaps due to COVID-19 pressures, this is no longer the case. Women of all ages expressed more anxiety about their pension now and said they were more cautious than before the pandemic.

Providers should target messages towards these groups, delivered in formats they find easy to consume, and engage them earlier on in the savings journey, so they can be reassured that their pensions are invested for the long term in familiar companies.

A simpler approach should extend to the ESG messaging itself, too. In 2019, we found that breaking down industry jargon is key to making pensions accessible and this is even truer today. It's notable that the 10 percent of all members who knew about 'net zero' in the first place, leapt up to one-third being keen to implement this target in their pension regardless of the performance impact, once the term was explained to them. If we take performance into consideration, this number jumps to nearly 60%. As high-profile campaigns such as Make My Money Matter, influencers such as Mark Carney, and government initiatives emphasise, demonstrating a measurable positive result is just as vital for providers as getting the message right. If not, members may well vote with their feet.

36% of members in the Arts, Entertainment, Recreation & other services sector want their pension to have a net-zero target, irrespective of impacts on financial performance

"There's no point if we're trying to invest for the future and our children's future if we're not taking a stance now... What kind of a world are they going to inherit and be able to spend their money in?"

Male, Generation X

Section 3

Post-pandemic priorities: Lasting legacy or false dawn?

51%

...of members said **COVID-19**...

and...

49%

...of members said **climate change**...

...would have a **bigger long-term effect** on society

75%

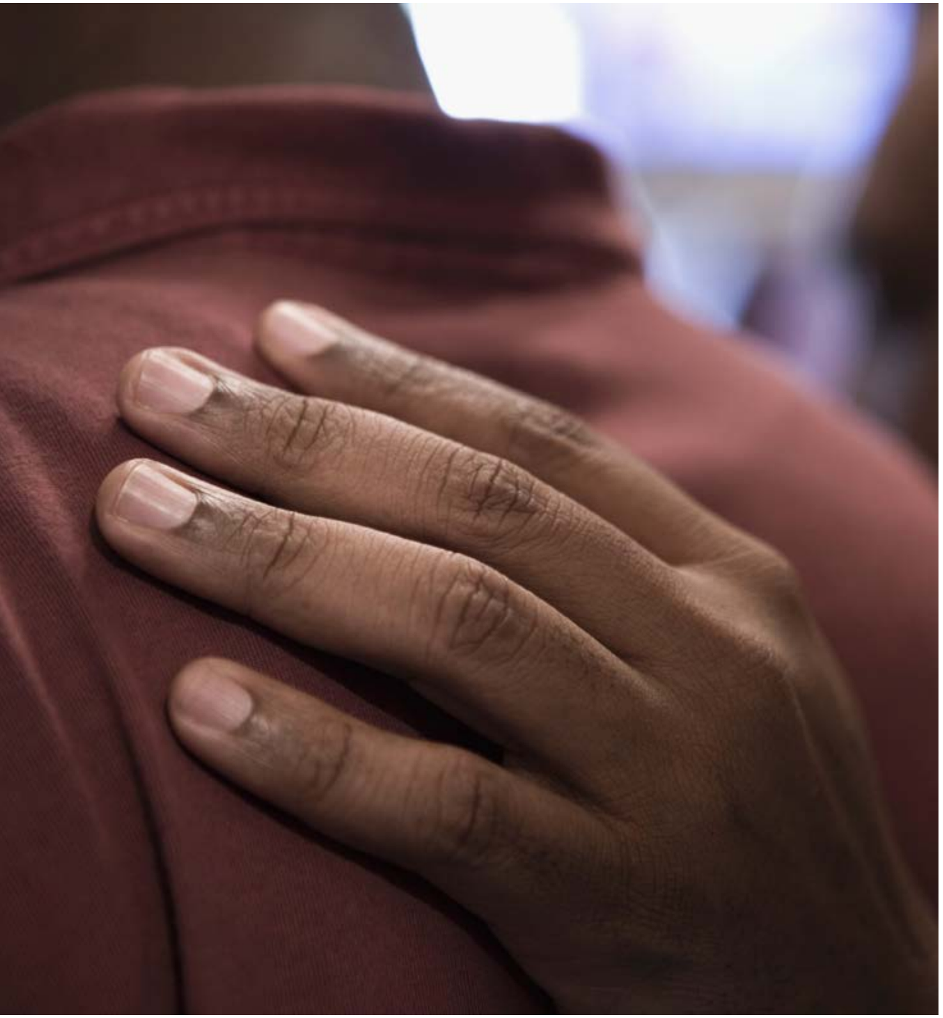
agreed with **financial support for the furlough scheme now**, even if it means **tax hikes** in the future

57%

would still **divest for social impact reasons**, but this number has fallen slightly since 2019

80%

agreed that **richer countries** should **share vaccines** and **treatments** with **developing nations**

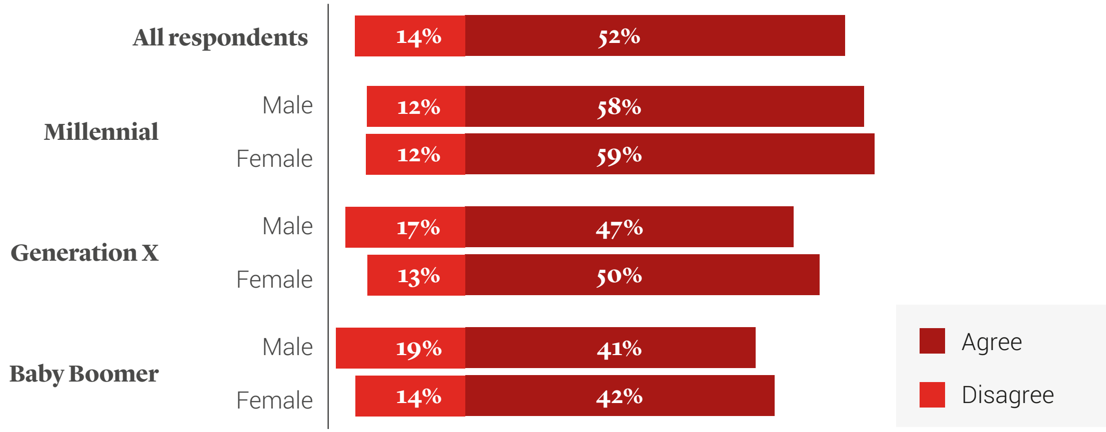


Here for the long haul

Recently, the Pensions Policy Institute[1] concluded that a heavy historical focus on climate change has left other ESG factors overlooked by trustees and scheme sponsors. This may be an oversight; particularly in the light of COVID-19, we found that members' views on social issues are just as punchy as their views on climate change.

In the short term, the pandemic has motivated over half of members in our survey (52%) to do more to address the inequalities in society. The propensity to feel this way falls off a little with age. But even among the groups least in favour: male Boomers and Gen Xers, only around one in five disagreed.

Figure 12: Floating all boats: Over half want to do more to address societal inequalities as a result of COVID-19



Source: : LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,057), excluding 'don't know' responses. Note: Results for adults who said 'Neither agree nor disagree' not shown in chart. Question: 'COVID-19 has made me want to do more to address the inequalities in society'

[1] https://www.pensionspolicyinstitute.org.uk/media/3742/20210218-ppi-engaging-with-esg-climate-change-report-final.pdf

However, this was not seen as a purely temporary necessity. Members generally expect that the societal repercussions of COVID-19 will be felt for many years to come. Just one in three (34%) agreed with the statement that COVID-19 will only have a temporary impact. Men were more likely to feel this way than women (38% compared with 28%). And perhaps with slightly different perspectives on what 'long-term' means, Millennials were the most likely generation to agree with this statement – 40%, compared to 29% of Gen X and just 26% of Baby Boomers:

"It made me realise that the key people in this world are not your film stars, it's your nurses, your doctors, your shop assistants, and your small businesses."
Female, Generation X

Adults working in those sectors of the economy that have been particularly affected by the pandemic (such as Arts & Entertainment, Health and Logistics) are the most likely to think the pandemic will have a lasting legacy. Meanwhile, white-collar workers in sectors that more easily made the transition to remote working, such as Technology and Finance, were more hopeful of a return to normal.

Green is no longer supreme

Even stacked against another of members' most important priorities: climate change, the pandemic was labelled equally concerning over the long term. As we discussed in Section Two, for many, the pandemic and climate change have a symbiotic relationship. This may explain why, when asked to say which would have a bigger long-term impact on the UK, respondents split in half (51% of members said COVID-19 and 49% climate change).

When these results are broken down by gender, women's views are not materially different by generation, but almost six in 10 male Boomers feel that climate change will have a bigger impact, compared to half of Millennial and Gen X males.

We also found some key differences by sector. For example, 59% of members working in Retail think COVID-19 will have a bigger impact than climate change, compared with 45% respectively of members working in Utilities and the Arts & Entertainment sectors.

Boosting jabs: Agitating for fair access to vaccines

Facing a global healthcare crisis over the past year has presented an opportunity for members to see ESG in action; to make a tangible link between their investments and their recent life experience.

In our 'depth' discussions, members indicated that they clearly understand the potential impact on their own lives and the families of a partial vaccination programme. They were positively surprised to hear that pension companies, including Legal & General (L&G), are taking action on their behalf to make this happen, even if this means they have slightly less money in their pensions.

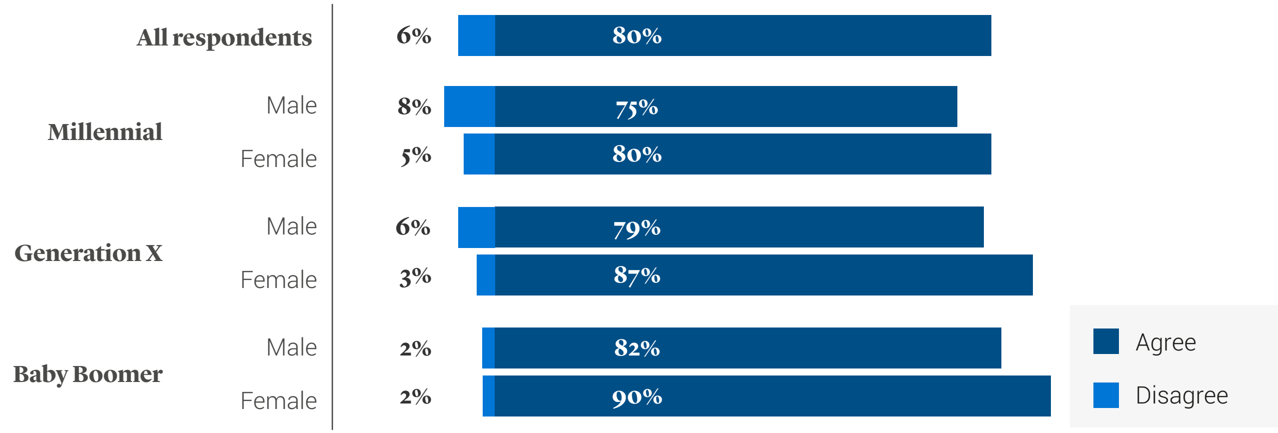
"I do want to see my pension do well, but not at the expense of society coming crashing down because people can't afford the vaccines... I would rather not make money on my pension and for everyone to have a vaccine."
Female, Generation X

Members in our survey were also overwhelmingly supportive of fair access to vaccines. A tiny minority (just 6%) did not agree that it was important for developing countries to have fair access to COVID-19 treatments and vaccines. The older the respondent, the more this issue resonated, with the proportion disagreeing falling to just 2% among Baby Boomers.

We also found some key differences by sector, with the highest proportions of members who strongly agreed with our statement working in Arts & Entertainment and in the Health sectors:

- **60%** of members in Arts & Entertainment strongly agreed
- **59%** of members in Health strongly agreed

Figure 13: The world is a village: Members overwhelmingly appreciated that curbing COVID-19 requires a global sharing of resources



Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,056), excluding 'don't know' responses. Note: Results for adults who said 'Neither agree nor disagree' not shown in chart. Question: 'It is important for developing countries to have fair access to COVID-19 treatments and vaccines'

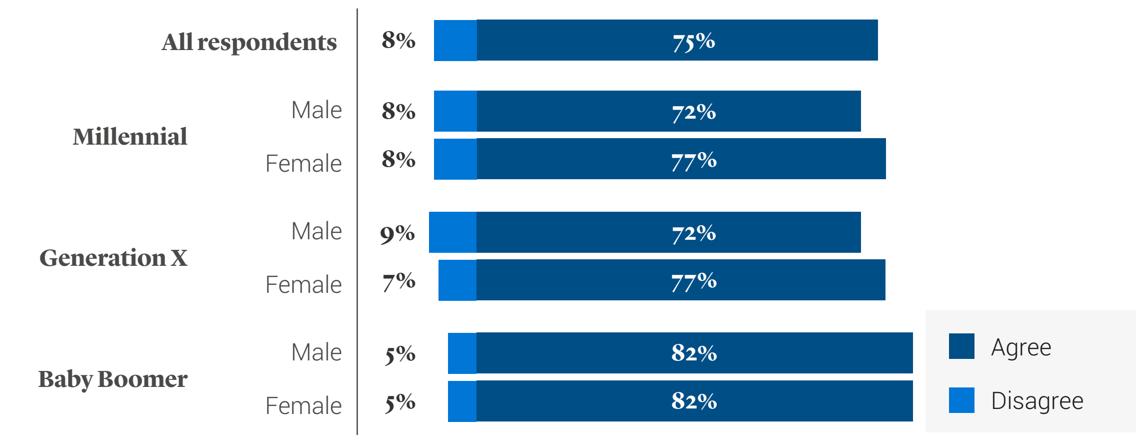
When protecting jobs, many hands make light work

As may be expected, the pandemic brought other concerns to the surface besides healthcare which elevated the broader importance of the ‘S’ in ‘ESG’ for members.

Three-quarters (75%) of members supported the Government’s furlough scheme even though there could be a direct impact on their financial wellbeing in the future. Baby Boomers were the most in favour, perhaps reflecting the fact that they are old enough to have had their formative years during periods of mass unemployment in the 70s and 80s. Possibly this may also be because the future tax burden is likely to fall more heavily on the younger generations.

Again, sectors hit hard by lockdowns (Retail and Food Services & Hospitality) and sectors which closely follow economic booms and busts (such as Construction) were the keenest to protect jobs, but it was encouraging to see workers in sectors that have not been so affected unite to help those less fortunate than themselves.

Figure 14: Favourable to furlough: Members prioritise staying afloat now over future financial stress



Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,055), excluding ‘don’t know’ responses. Note: Results for adults who said ‘Neither agree nor disagree’ not shown in chart. Question: ‘It was important to protect wages and jobs during the COVID-19 pandemic, even though this means I will probably pay more tax in the future’.

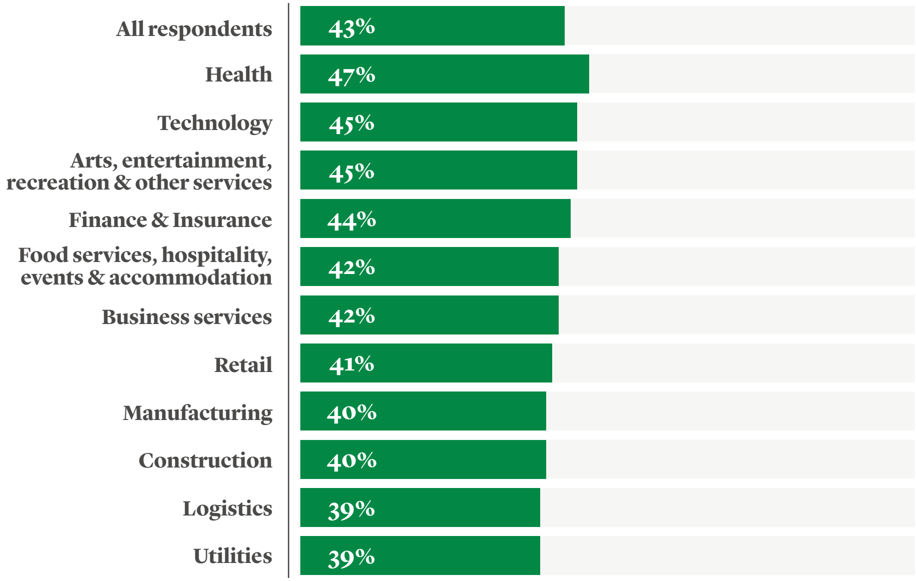
Actions to protect livelihoods are not only the preserve of governments. At the start of the pandemic, LGIM wrote to the companies it invested in, calling on them to take all the necessary measures to make sure employees and suppliers were retained, even if it meant taking a hit on returns and dividend income. When explicitly asked to consider whether they would have been willing to sacrifice some short-term investment gains in their pension to ensure that employees were not losing their jobs, 43% of members said yes to this in our survey. There was no material difference by gender or generation. Perhaps surprisingly, given disparate experiences, there was very little difference in this number by sector.

Given a little time to think about the personal consequences for their pension money in our in-depth discussions, members were far more likely to be supportive of the actions LGIM took to protect jobs. And so, again, we believe that the survey numbers are likely to be under-representing the true picture.

"I don't want to profit from someone losing their job or people, hundreds of people, losing their job. I'd rather get less out as a shareholder. It could be people like me with children losing their jobs."
Male, Millennial

Statements like the one above demonstrate how strongly members empathised with social concerns around unemployment, which were felt more immediately than climate change.

Figure 15: Effective altruism: Nearly half would be happy to trade some short-term financial gains for employees' economic security



Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,056) Question: 'Those who would be happy to sacrifice some short-term gains if this can contribute to employees not losing their jobs'.

46% of members in Food Services & Hospitality strongly agreed that it was important to protect wages and jobs during the COVID-19 pandemic, even though this means they will probably pay more tax in the future.

Moving gender up the agenda

Issues relating to their own experiences certainly resonated with members, but so did those of others. The last 12 months have highlighted just how rapidly attitudes can evolve. Events such as the Black Lives Matter protests, the death of Sarah Everard and court rulings against apps Deliveroo and Uber influenced the views of our qualitative respondents. They gave robust responses to examples which highlighted some of LGIM's recent actions on fair pay, modern slavery, and gender diversity:

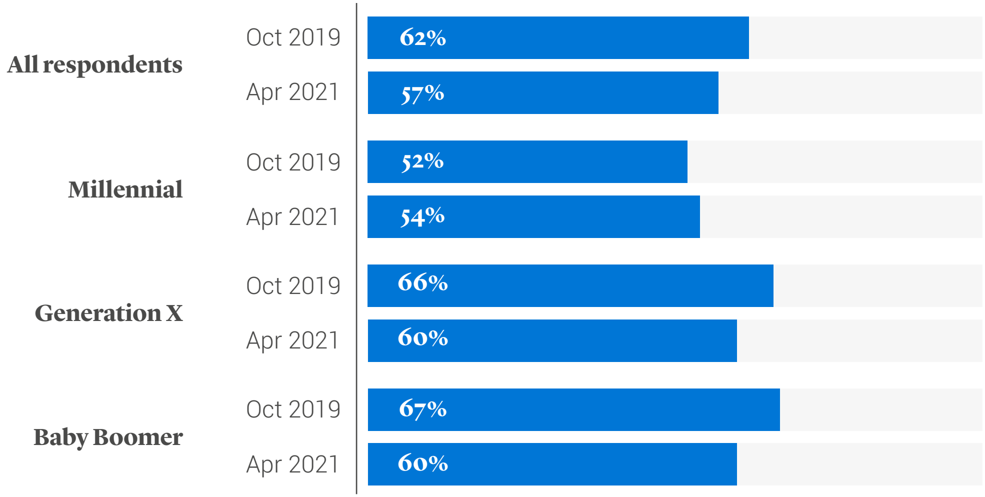
"We're not living in 1922 anymore where the man goes out and works and the woman stays in and cooks and looks after the baby... To find out that Nintendo has just appointed the first female board members is a shocker. From the pension point of view, for them to fight and have a case to do that, I think is brilliant."
Male, Millennial

Some members found tackling modern slavery an even more important issue than tackling climate change, demonstrating a level of sympathy for issues few members have directly experienced (thankfully!)

Better out than in

Overall, while most members want their pension to invest less, or not at all, in companies that have a perceived negative social impact, there has been a slight drop in the numbers over time, down from 62% in 2019 to 57% today.

Figure 16: Social distancing: Millennials are the only group where the numbers wanting to divest for social impact reasons has remained constant



Source: LGIM data, October 2019/ April 2021. Base: All adults currently contributing to a workplace pension (October 2019: 988/ April 2021: 3,056) Question: 'Those who would want their pension to invest less, or not at all, in companies that have a perceived negative social impact'.

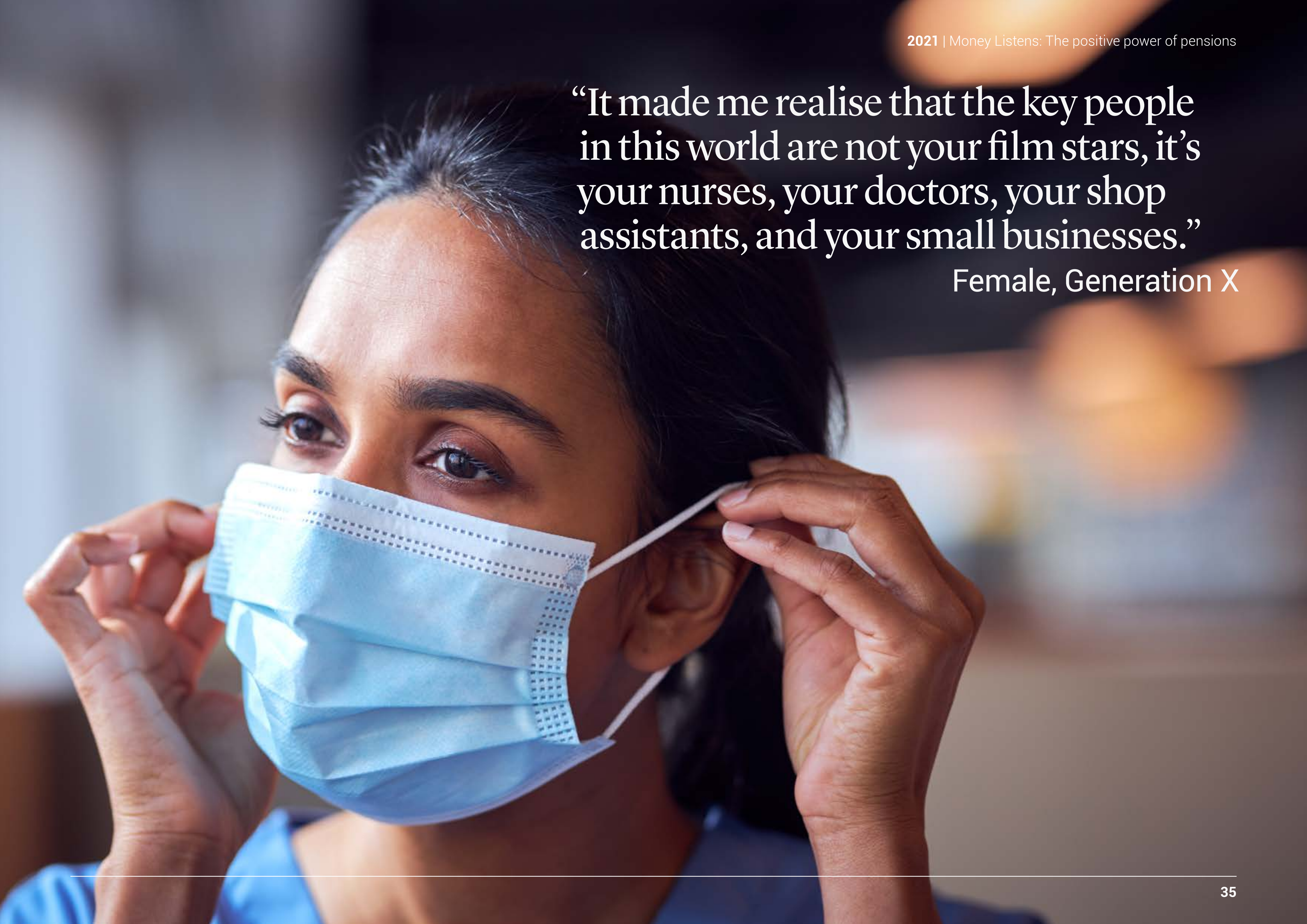
- **66%** of members working in Health would prefer to invest less, or not at all, in companies with a perceived negative social impact
- **63%** of members working in Arts & Entertainment would prefer to invest less, or not at all, in companies with a perceived negative social impact
- **60%** of members working Food Services & Hospitality would prefer to invest less, or not at all, in companies with a perceived negative social impact

I did it my way

The pandemic has thrust a wide range of social factors – from health to unemployment – into the limelight. This is evinced by the fact that this health crisis is now considered at least as important as climate change over the long term. And companies with a negative social impact elicit no divestment dilemmas for most members: they want out.

2021's findings reinforced that when it comes to members' ESG preferences, life experience matters. Many of the headlines which have dominated the past year highlight negative lived experiences of women and people of colour. So it is perhaps unsurprising that in this survey we saw a move away from 2019's results, where the 'S' factor was a higher priority for older men. The importance of social issues is now felt more strongly by women (in general) and Millennial men, and in sectors where these groups are over-represented.

As providers and employers consider how to tailor their messaging towards their members: it's clear that a 'one size fits all' approach to communication cannot work. Industry is important. To turn the halo effect generated by COVID's community spirit into lasting and tangible change, providers need to listen to members' differing experiences of life and work during the pandemic. More broadly, it's clear that some sectors face more pressure to move faster on social issues than others, or that there's a greater misalignment between members' views and investment strategies, which the pensions industry needs to be alive to this. How members would like their investment preferences implemented is explored in more detail in Section Four.



“It made me realise that the key people in this world are not your film stars, it’s your nurses, your doctors, your shop assistants, and your small businesses.”

Female, Generation X

Section 4

Great power, greater responsibility: ESG investing in the wake of COVID-19

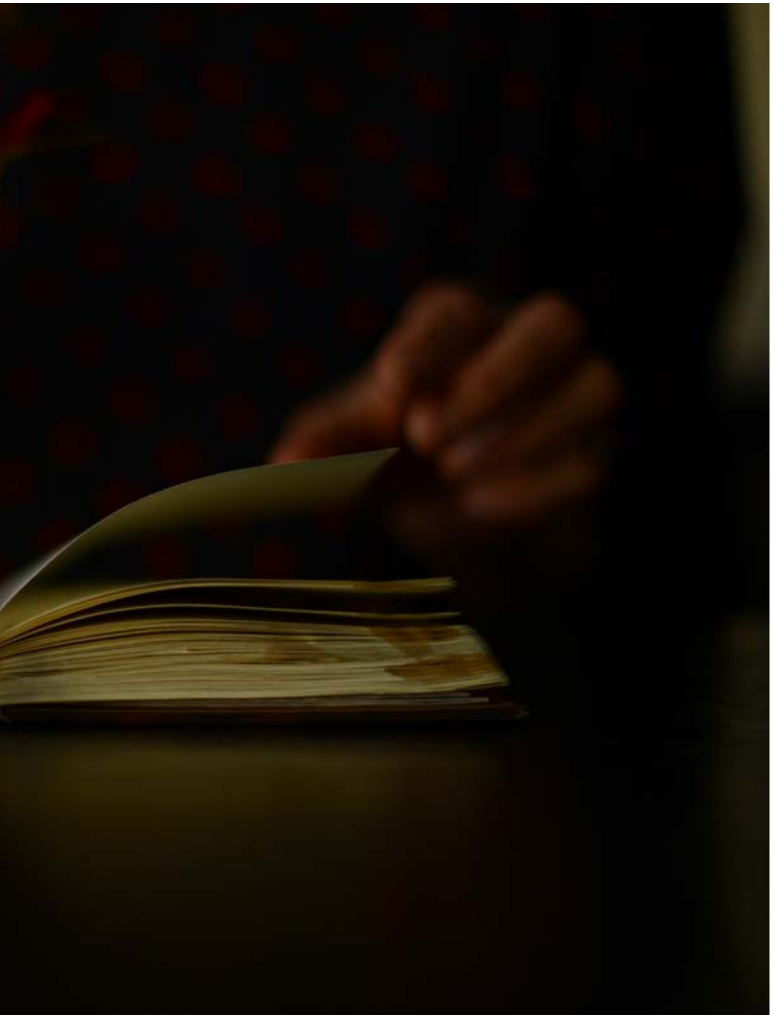
Just **2 in 10** members believe that **better run companies** make **worse investments**

Those preferring to **engage first** and **then divest** has **increased substantially** between **2019** and **2021** from:

49% to 57%

The proportion of members who might **pay more** into their **pension** as a result of **being told more what is really going on** with **their money** has jumped from

14% to 25%



The more you learn, the more you'll earn

Discovering the themes members care about is one thing. Implementing their choices in their pension is quite another.

Savers were surprised and enthused by finding out that the trillions of pounds in their pensions can help to build a better world. They were not so pleased to discover that their money could also be invested in a myriad of things that do not sit well with their personal values – from gambling to tobacco, fossil fuels to palm oil, to firms that exploit workers and employ discriminatory practices:

"Collectively you and I, and whoever else is invested... as a collective you are quite a sizeable unit. I've never thought of it that way."
Male, Generation X

Re-framing 'investing' to help members understand that they own small parts of businesses and that collectively we all own significant parts of the global economy has a dramatic effect on how they feel about their pension money. The knowledge that pension money is being used by the Government for school and hospitals and that it is building physical infrastructure such as shopping centres, housing estates and windfarms opens their eyes to the possibility that their money can make a difference to their lives today, as well as many years into the future. This gives pensions a newfound sense of purpose and immediacy:

"With £3 trillion, you could do anything with it... Money talks. Money is power. The unions have sort of just disappeared. I think pension companies are really the only people who have any sort of impact or change. It's just taught me this conversation, how much I didn't realise how powerful pension companies actually are and the good they're doing..."
Male, Millennial

"Pensions are not going to grab young people's attention. But if it's attached to stuff that's going to affect their children as they grow up then I think obviously people are going to pay far more attention to it."
Male, Millennial

When dealing with companies, investors prefer getting engaged to breaking up

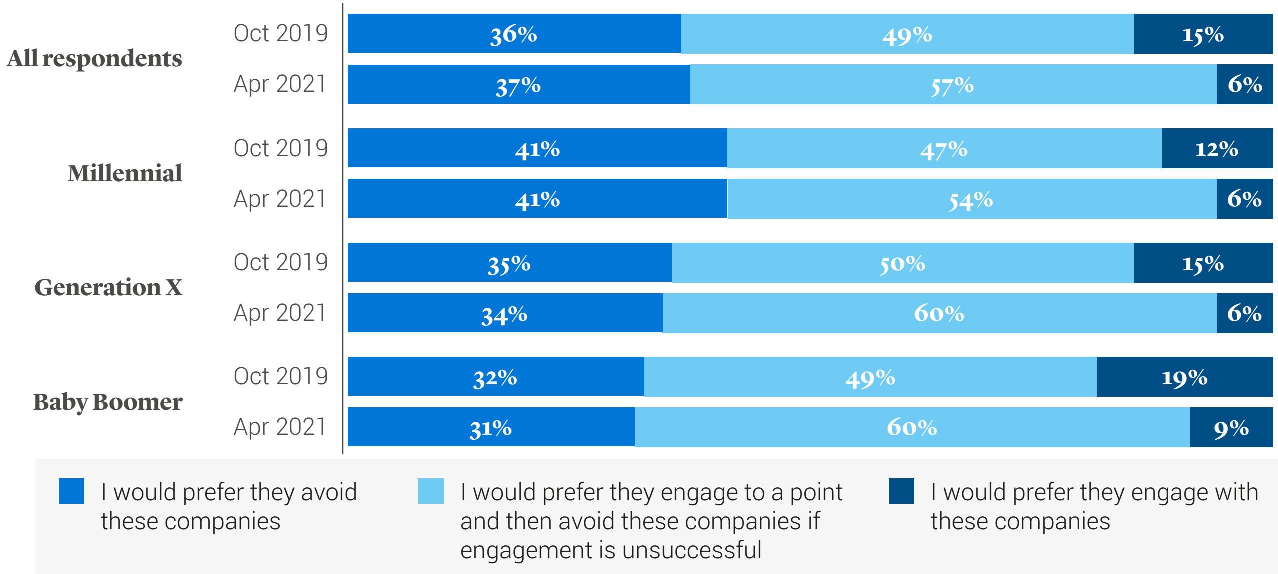
Pension money has power, but deciding how best to use that power on members' behalf is not easy. Whether to purely exclude companies who behave badly or to engage to build a stronger ESG policy through dialogue and voting remains a hot topic within the investment industry. Our last survey demonstrated key generational differences between those who wanted to divest and those who wanted their providers to engage with the companies in the three case studies presented: G4S*, Royal Dutch Shell*, and Persimmon*. Here, just 32% of Baby Boomers and 35% of Gen Xers chose exclusion, compared with 41% of Millennials (a divide more pronounced among men).

In this year's survey, respondents were again given three topical case studies (based on the actions LGIM has recently been taking on its members' behalf) and were asked to consider their preferred approach to Samsung's* construction arm financing more coal power, Procter & Gamble's* record on deforestation and sustainability, and the prevalence of modern slavery in Boohoo's* supply chain.

Having considered these case studies, just over one in three (37%) members would prefer their pension provider to avoid altogether companies that are not performing, rather than engaging with them to encourage them to change their practices. This result is very similar to the results from our survey 18 months ago. In contrast, the number preferring to engage first and then divest has increased substantially, up from 49% to 57% in 2021.

*For illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

Figure 17: Boomers zoom ahead: Older cohorts have overtaken Millennials in their preference for engagement first



Source: LGIM data, October 2019/ April 2021. Base: All adults currently contributing to a workplace pension (Oct 2019: 988/ Apr 2021: 3,056) Question: 'After having seen these case studies, would you prefer pension providers to avoid companies that aren't performing well in terms of their environment, social or governance practices or engage with them in the first instance?'

Nobody puts baby (boomers) in the corner

This overall number masks a surprising generational shift in attitudes. We found that female Millennials' views have not substantively changed. However, male Millennials, Gen X, and male Baby Boomers are now significantly more in favour of engagement in the first instance than they were 18 months ago – with a sharp move away from the 'engagement only' category and into one with a threat of more concrete action.

The connection to everyday brands, recognising cases which had appeared in the mainstream media and empathy with the experience of the workers were instrumental factors in changing people's minds:

"The problem is, if everyone pulls out their money, it's not the owners of Boohoo that suffer, it's the people who are employed [by them]. So I think the right thing to do is always try to improve the conditions and the pay rather than try to just destroy the company by no longer investing in it."
Female, Generation X

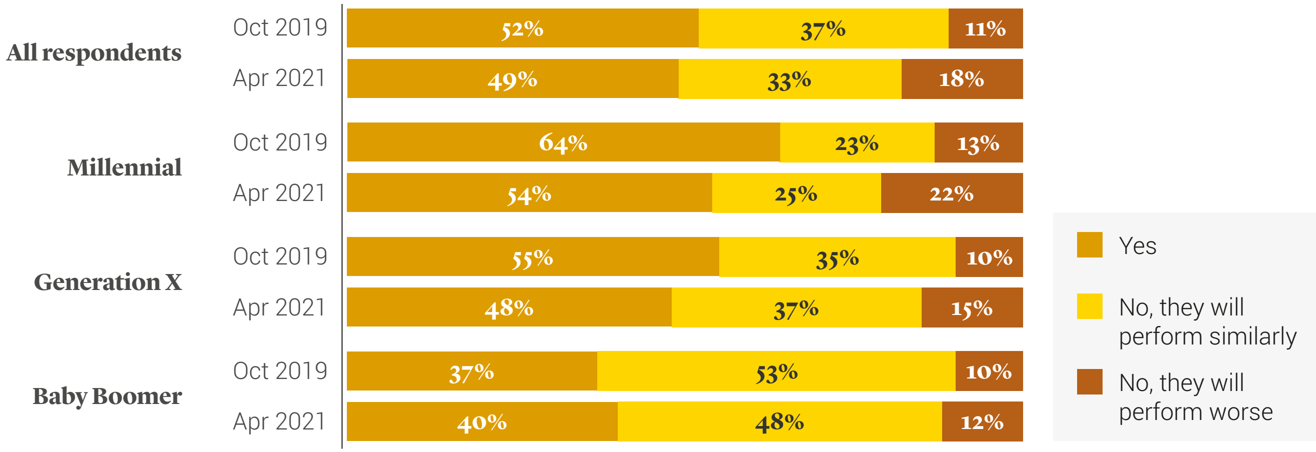
"The companies that we're talking about, they've been getting away with it. And if it's not financially incentivised or there isn't a financial incentive for them to do it, it will just be the Government… putting pressure on them to reduce carbon emission and increase recycling. I think they [LGIM] have a responsibility if they are heavily invested in the company to be making any suggestions and trying to push them forward."
Male, Generation X

No conflict: Most believe better-run companies make better investments

The perceived dichotomy between financial returns and ESG action, which loomed large for members in our last survey, is increasingly being resolved. Just 18% of members thought that environmental, social and governance (ESG) actions: including taking steps to address climate change, to have a diverse workforce, and to treat their employees fairly, would result in worse financial performance. This sends a powerful message to trustees and pension providers that members can see that they do not have to make financial sacrifices to incorporate ESG into their investments. Women were more likely to think this way than men, and female Boomers were the most likely to make this connection.

"It's a win-win route, isn't it? If you make the companies go down this route, their products will sell more in the future. Once they can show consumers that they're environmentally sustainable this will increase their shares price in the future."
Male, Generation X

Figure 18: Two-thirds of Millennials think ESG factors positively contribute to a company's financial performance; a significant increase on the 2019 results



Source: LGIM data, October 2019/ April 2021. Base: All adults currently contributing to a workplace pension (Oct 2019: 988/ Apr 2021: 3,056). Question: 'Do you believe that companies that are taking steps to address climate change, have a diverse workforce and treat their employees fairly will financially perform better than companies that do not?'

Creating real change: The positive impact of inclusive capitalism

We showed members some further examples of issues and the actions that are being taken as a result of actions by LGIM and others.

Figure 19: Examples of the power of inclusive capitalism

	Issue	Action
	Oil and gas companies like BP* are under pressure for their contribution to climate change.	BP* has adopted net-zero emissions targets, pledging to significantly reduce its oil and gas production over the next decade, broadly in line with global climate targets.
	Mining giant Rio Tinto* faced widespread condemnation for the destruction of a 46,000-year old heritage site in Australia during a mine expansion.	Rio Tinto* had initially agreed to cancel the bonus of top executives. LGIM and other investors felt this was an inadequate response. The CEO, chairman and two other directors stepped down as a result.
	Property companies such as Persimmon* and Great Portland Estates* have been under fire for the gap between the pay of their executives and their employees.	Persimmon* has agreed to introduce a real living wage for their staff, and Great Portland Estates* have increased the pensions contributions for the workforce.
	In Japan, over 160 of the largest 500 companies have no women on their boards.	Japanese videogame company Nintendo* have appointed the first woman on their board.

*For illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

After seeing examples of ESG issues in well-known companies and the remedial actions arising from engagement, two-thirds of members felt more positive towards LGIM, with this number rising to 75% for female Millennials. Just 8% felt more negative.

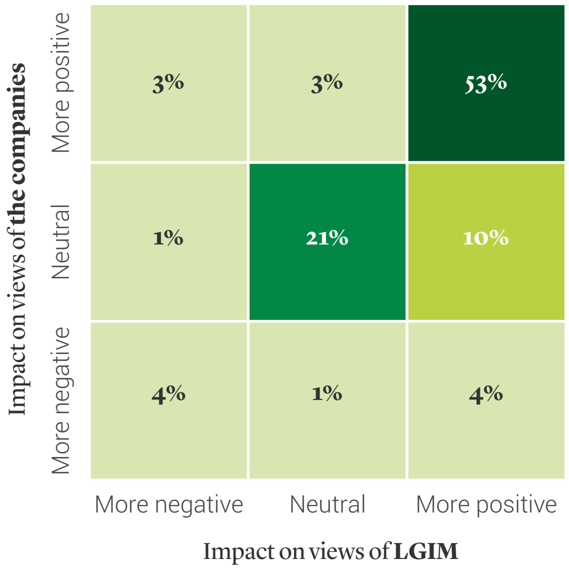
"I think that's great. I mean, who else would be able to have that influence? The customers can complain on Twitter or whatever, but does it actually change anything? Whereas if Legal & General say we're going to remove investment; that's a big influence, isn't it? So, yeah. I love that idea as well. I had no idea this was going on."
Female Gen X

Such interventions may also have a halo effect on firms. Six in 10 (59%) members reported that they also felt more positive towards the companies as a result of the actions taken in response to shareholder pressure.

"I thought it was just all stocks and shares. I thought it was people standing on the trading floor every day. I didn't know they were working with companies, improving things, and I had no idea that that was going on."
Female, Baby Boomer

Figure 20: The halo effect: Positive action drives positive opinions

Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,056). Question: 'Having read these case studies, do you feel… ?'



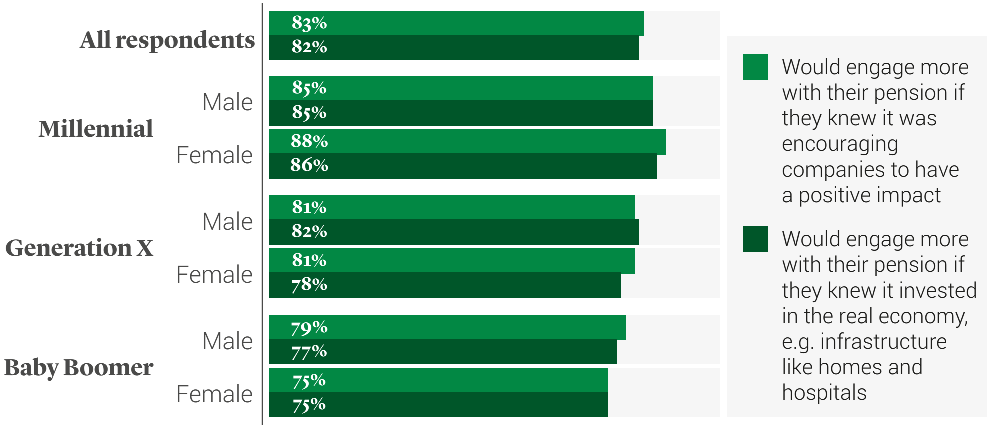
Overall

- **67%** now feel more positive about LGIM having read the case studies. 25% feel neutral and 8% feel more negative.
- **59%** now feel more positive about the companies involved. 32% feel neutral and 10% feel more negative.
- **53%** now feel more positive about LGIM and the companies involved.

Making it real: Moving the dial on engagement

Hearing about these positive changes was a real lightbulb moment for our respondents. A whopping 83% of members agreed that if they knew that their pension was rewarding or encouraging companies to have a positive impact through its investment strategy, it would make them want to be more involved and find out where else their pension is invested. A similar proportion 82% said they would be more likely to engage with their pension.

Figure 21: Does ESG also mean greater engagement: Most would interact with their pension more if they felt it was having a positive impact



Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,056). Question: 'Those who want to engage more with their pension now that they know it is rewarding/ encouraging companies to have a positive impact'.

This newfound enthusiasm for pensions was evident in both our qualitative discussions and in unprompted feedback from our survey respondents.

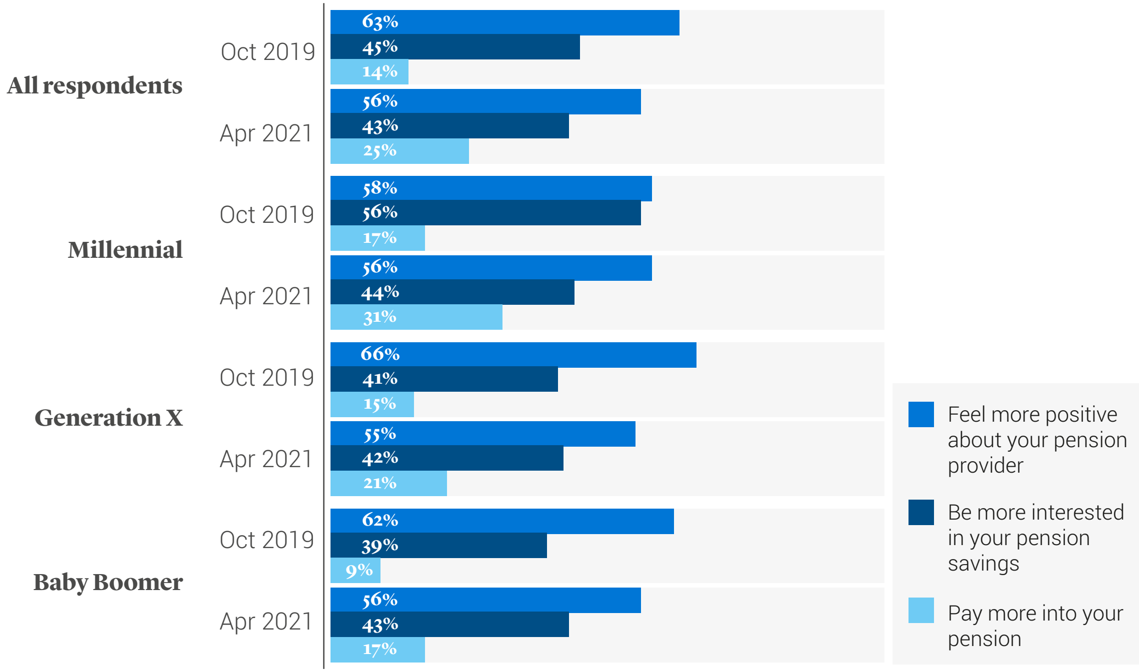
"My financial adviser is actually an ex-colleague who used to work in the bank. We just gossip when he comes round about what's going on and so the pension chat has almost become like, "oh don't worry. It's doing well". But this has certainly made me want a different conversation with him next time I see him. Like I said, I try and do my little bit and this is another little bit that I can influence."
Female, Generation X

Put your money where your mouth is

Statistic after statistic in our survey demonstrates the positive impact that inclusive capitalism can have on member engagement, not least in the proportion of members who might pay more into their pension as a result of being told more what is really going on with their money has almost doubled over the 18 months, up from 14% to 25%.

Yet respondents, particularly those working for large employers, often remarked on the disappointing lack of ESG information in onboarding materials, pension inductions, on their workplace intranet, and in town hall meetings.

Figure 22: Put your money where your mouth is:
The percentage of people who would pay more into their pension if they knew what their provider was doing on their behalf has jumped



Source: LGIM data, April 2021. Base: All adults currently contributing to a workplace pension (3,051), excluding 'don't know' responses. Question: 'If your pension provider informed you regularly about how they are using the investor rights, would you… ?'

The medium is the message

Asking members about their ESG preferences in the abstract is not sufficient to engage them over the long term Amplifying their voices on specific ESG issues relating to their pension investments can.

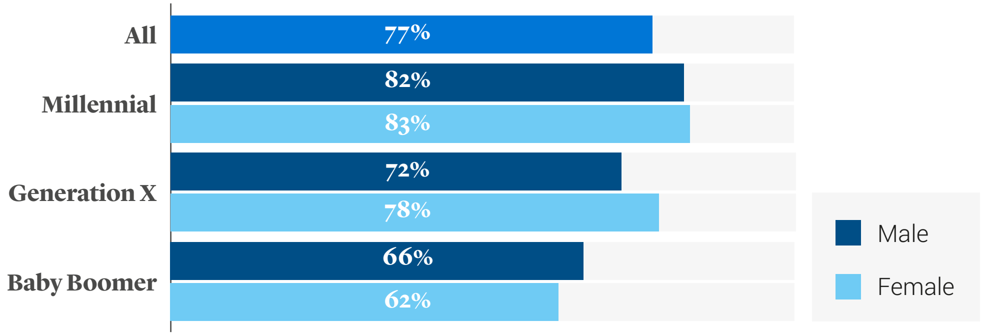
When respondents realised the power that their pension money had, they started to question how providers made decisions on what they would, and would not, take a stance on. Some felt aggrieved that they had not been asked for their views. Unprompted, they wondered whether there was some sort of simple mechanism for members to provide their preferences.

All respondents were shown a simple description of Tumelo, a voting platform currently being piloted with some Legal & General employers, which allows members to view the companies their pensions are invested in, as well as to cast their opinion on upcoming shareholder votes. The platform borrows features from social media, such as 'like' functions and 'push notifications' so that members interact in a way that is easy and relatable: making engaging with your pension as simple as checking Twitter or Instagram.

Nearly eight in 10 members expressed an interest in using such a simple app to influence how their pension money is being used. As you might expect, interest was highest amongst Millennials, but even amongst Baby Boomers two thirds (64%) expressed interest, and almost a quarter (23%) were very interested.

"Absolutely amazing. This is news to me and it should be on the 10 o'clock news tonight. It's brilliant. The pension companies are second-guessing what people might want their money to be invested in. And what better way than to have it actually come from the horse's mouth so that you can say yes or no. Straightforward, simple. So yeah, everyone should know about this. They've got a right to know. I'd download it now if it was available."
Male, Millennial

Figure 23: Almost eight in 10 pension savers would be interested in using an app that allows them to see what companies they are invested in, and have a direct vote on issues that interest them



Source: LGIM data, April 2021 Base: All adults currently contributing to a workplace pension (3,051), excluding 'don't know' responses. Question: 'Some pension providers have introduced apps which allow members to see what companies they are invested in, and have a direct vote on issues that interest them. An example of one app that does this is shown below. 'How interested would you be in using this type of app to influence the companies your pension money is invested in?' Note: Chart shows those who would be very interested or somewhat interested.

“The unions have sort of just disappeared. I think pension companies are really the only people who have any sort of impact or change.”

Male, Millennial

Capitalising on inclusive capitalism

When it comes to implementing their ESG preferences into their pension, it's clear that members increasingly want firmer action that doesn't close the door to dialogue with companies or neglect the need for financial returns.

Last year, we gave a strong call to action: members want accessible messages about what their money has been doing, using simple case studies to bring the issues to life. Members will simply not proactively seek out Statements of Investment Principles or governance reports. They want easy ways to have their say and to readily identify those schemes which have adopted net-zero targets or embedded ESG into their defaults. Unfortunately, messages about pensions, from the fact they are 'invested' at all, to the actions being taken on their behalf are not getting through fast enough.

However, putting members' money where their mouths are using the social-inspired platform Tumelo was a promising start. While we predicted it would work with Millennials, encouragingly, we found that it resonated across all generations. Perhaps a lasting and positive legacy of the pandemic is, in fact, a digital revolution which has seen Gen X and Boomers embrace technological change much faster than we could have ever expected. Furthermore, the crisis has brought ESG themes to the fore in the press and in government policy, so that groups who rely on mainstream media for information now demand action in their pension.

Across the board, we see that members have a new interest in addressing societal issues and stories about diversity and fair pay play well, regardless of gender, generation and sector. 'Inclusive capitalism' can change the way members think about their pension money from "boring", or a "tax", or worse, a "gamble". Suddenly, a pension becomes a real and very powerful weapon in the battle against climate change and social injustice. In the wake of the COVID crisis, it can help stem poor working practices, as well as improving health outcomes: the lived realities which have become all too familiar for members and their families up and down the country.

For the moment, investors may be able to have their cake and eat it. However, if governments move too slowly, in five years we could see a conflict arise between the traditional interpretation of fiduciary duty – maximising returns – and the need to exclude slow adopters, as regulation in markets gathers force and pace. From this, winners and losers may emerge, as certain companies are quicker to transition and their investors are able to reap capital allocation rewards as well as gains from green revenues. Without careful management, this could result in market volatility and riskier portfolios for investors.

So providers can't get caught out. It's incumbent on the whole pensions industry to step up and think creatively about what actions we can take to make inclusive capitalism a reality for members, by incorporating their ESG desires as well as staying on top of regulations and managing risk.

Scheme sponsors should take the time to find out what matters to their members, as our data shows that real-life experiences result in different priorities for different groups. Our findings this year demonstrate that attitudes can change quickly, and we recommend regular temperature checks to take the pulse of members' changing views. The simple act of completing an engaging 10-minute online survey to gather such insights can transform their perceptions of a pension and keep them engaged with their own retirement funds.

"An interesting survey, raising points I shall definitely look into. Time to look up my pension in MUCH more detail!"
Survey respondent

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