ARIA CAPITAL MANAGEMENT

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Time for pensions to contribute towards building a better world

New landmark report from the United Nations on the state of climate science

As we have been witnessing in recent years and months, climate changes are occurring in every region and globally. A new landmark report from the United Nations on the state of climate science has highlighted modern society's continued dependence on fossil fuels, which is warming the world at a pace that is unprecedented in the past 2,000 years. Its effects are already apparent as record droughts, wildfires and floods devastate communities worldwide.

Put simply, net zero refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount taken away. The UK became the world's first major economy to set a target of being net zero by 2050.

GREENHOUSE GAS

The Intergovernmental Panel on Climate Change report published on 9 August emphasises there is still time to act, but it must happen immediately. Limiting climate change demands strong and sustained reductions in greenhouse gas emissions from human activities such as burning fossil fuels.

One of the main areas where change can make a significant difference to all of our futures is how and where our pension money is invested. But the facts are, if money is invested in a standard, default pension, it could be doing more harm than good.

CLIMATE CHANGE

Your pension is more than just a retirement fund, it can also contribute towards building a better world. However, one in four pension scheme members have never even heard of net zero, while three in ten can't explain or understand the connection with their pension pots and climate change.

According to new research[1], almost nine in ten Defined Contribution (DC) scheme members were not aware of the importance of having their pension scheme aligned with a net zero goal. But, encouragingly, members were overwhelmingly in favour of their pensions moving towards net zero when the term was explained.

COLLECTIVE POWER

The survey also uncovered that one in four (25%) have never heard of the term 'net zero' and a further three in ten (31%) have heard of it but could not say what it means. In fact, 70% of DC members prefer remaining invested and using their collective power to engage with companies to align their businesses with global climate change efforts, or prepare them to thrive in a low-carbon economy.

Two-thirds (64%) of all members have become more concerned about the impact of human actions on the planet following the COVID-19 crisis. Rather than deprioritising environmental issues in favour of immediate concerns, the pandemic has thrust them into sharper focus as members explicitly linked them with their current situation.

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PERFORMANCE IMPACT

Millennials are the strongest supporters of engagement, with 79% of them supporting providers' stewardship activities. Their attitude also helps to explain their change of heart towards outright divestment. While still the most radical cohort of the three generations on this issue, half of Millennial members would consider divesting if it had no performance impact, while only two in five of them would divest no matter what.

Baby Boomers are twice as likely as Millennials to want to keep pensions as diversified as possible, even if that meant investing in fossil fuels, but the proportion has dropped from 30% to 25% over the past 18 months. The research also shows that more than a fifth of 'Boomers' (22%) are now happy to divest into a greener pension regardless of performance. This follows increased coverage of climate in the mainstream media and real concern about the impact of climate change on their children and grandchildren.

YOUNGER VIEWS

Millennial men are the most likely to want a net zero pension irrespective of the impact on financial performance. The proportion who feel this way (40%) is double that of the group showing the least interest, female Baby Boomers (20%).

As Baby 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. Younger views will be an important factor in shaping the direction of travel over the next ten years. This new cohort can no longer be assumed to be simply chasing maximum financial returns regardless of the impact on the planet. ■

WHAT GOOD COULD YOUR MONEY DO?

Humanity has its work cut out to create solutions to the many complex problems of the 21st century. We help you assess the risks – and opportunities – posed by companies' and countries' performance in critical areas, such as climate change, executive remuneration, and diversity and inclusion. Please speak to us for further information – we look forward to hearing from you.

Source data:

[1] Survey conducted in April 2021, based on a population of 3,056 adults currently contributing to a workplace pension. Legal & General Investment Management published 14 June 2021.

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS YOU HAVE A PLAN WITH A PROTECTED PENSION AGE). THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE. YOUR PENSION INCOME COULD ALSO BE AFFECTED BY THE INTEREST RATES AT THE TIME YOU TAKE YOUR BENEFITS.

THE TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATION WHICH ARE SUBJECT TO CHANGE IN THE FUTURE. YOU SHOULD SEEK ADVICE TO UNDERSTAND YOUR OPTIONS AT RETIREMENT.