

# SOCIAL INVESTING: THE MEMBER PERSPECTIVE

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ACTIONABLE, INSIGHTFUL RESEARCH

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**Would a greater range of investment options encourage greater engagement with pension savings?**



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**What is the demand for social investing?**



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**Should social investment options be labelled or described in a standardised way?**



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## The reasons members give for their lack of interest in pensions have very little to do with their investment options

I don't trust pensions, there have been too many bad news stories

Pensions are boring

Pensions are too complex – “it's a minefield”

I've got more urgent priorities

There is too much jargon – it's so confusing

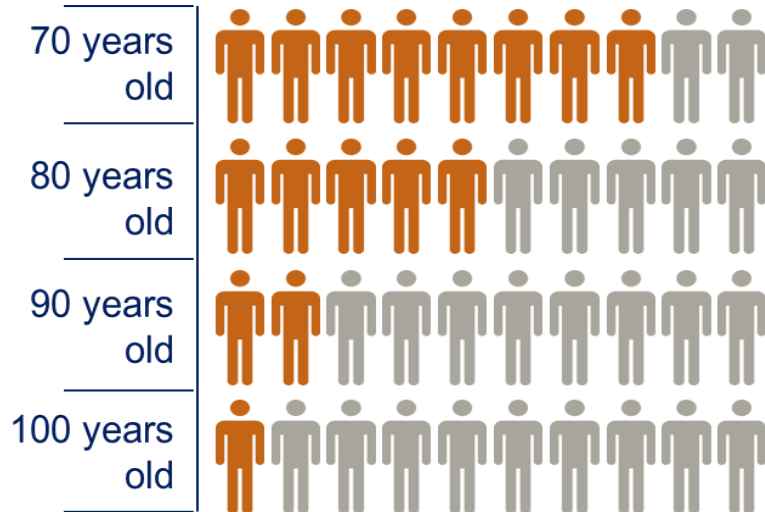
I can put off thinking about it. it's a long time to my retirement

You are better off with property - I understand that



## Members fundamentally do not understand how much they will need to save for retirement

Members consistently under-estimate life expectancy...



ONS data for a life expectancy of a 65 year old male:

Age 70 = 93%, Age 80 = 73%, Age 90 = 39%,  
Age 100 = 9%

...and are always shocked to hear how much they need to save

*“This session has really opened my eyes in terms of how much I need to invest as I wouldn’t be able to live on the state pension. The thought that we are going to be in pension age for longer than 10 years and I am going to live over 100, well I might as well invest my whole salary now!”*

Female, 25-35 years old

# **Members currently have very limited awareness of how their pensions are invested**






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**Over 90% of members<sup>1</sup> are in a default fund, as very few feel confident to make investment decisions themselves**

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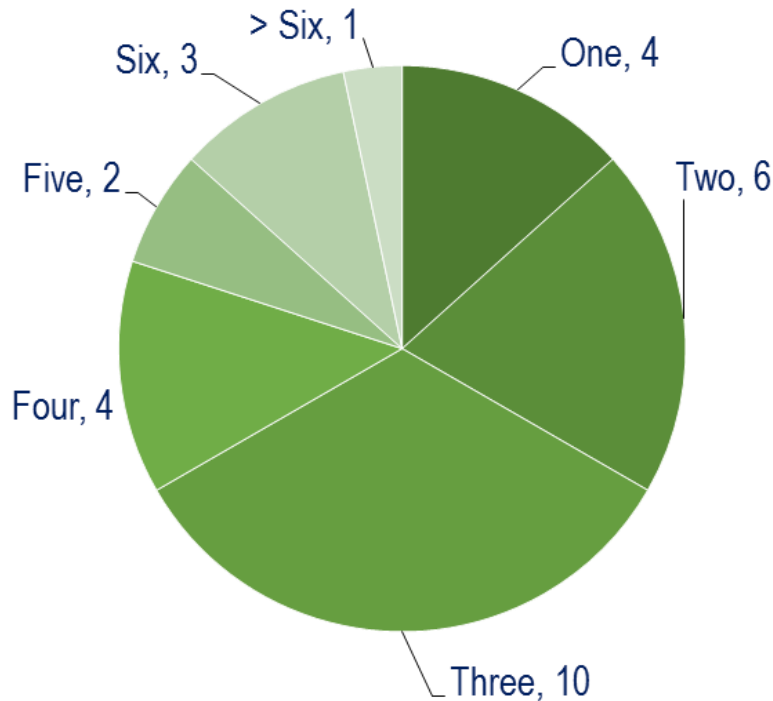
<sup>1</sup>Source: *PLSA Annual Survey 2014*

## Members have a very low baseline of understanding when it comes to investments

-  Members don't understand even the most basic investment concepts (equities, bonds, funds, and so on).
-  Members use the 'wrong' language when talking about their investments, referring to 'interest rates' rather than investment returns.
-  Members often have a very different perception of 'risk' to the industry – typically the things they understand (e.g. property) are seen as lower risk.
-  Members usually have no idea how their funds are currently performing, or what drives performance.
-  Members have low or no awareness of the impact of charges on performance.



# Our research consistently suggests members can only cope with about six investment choices – adding more complexity simply turns them off



*“I think if they give you too many choices then you’re going to get bamboozled, I just think about three choices rather than loads...I couldn’t take any more than three.”*

Female, 25-35 years old

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## Case Study: USS member research indicated significant interest in ethical investments - but in reality very few actually have taken up the ethical option themselves

*“USS, particularly, should have an ethical fund range because the higher education sector has a higher proportion of people who are actually thinking ethically about their money.”*

USS member

- In a survey of nearly 10,000 members almost half (49%) expressed a strong desire for an ethical fund.
- Younger members and those on salaries up to £75k were more interested and more likely to opt for an ethical investment fund.
- Those earning £55-75K were the most likely to consider ethical investment even if it meant higher charges or lower investment returns – half of the respondents in that salary bracket said they would.
- But over 90% of USS members are in the default fund.

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In a recent study we asked members to say whether their ethical equity fund option was high, medium or low risk.

Out of 80 members, how many got it right?

- We observe strong behavioural biases and framing issues driving consumer behaviour and dis-engagement with pensions. As a result, we hypothesise that social investment will make very little difference to whether or not people save enough for their retirement.
- While there may be strong support for social investment in theory, we are doubtful it will translate into individual decision making - unless it is part of a default fund strategy.
- There is a strong possibility that members will misunderstand the risk level of such funds, therefore careful naming will be required. Some consistency across the industry will be very helpful.

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