Grayside Financial Services
1st Floor, 55 High Street,
Epsom, Surrey KT19 8DH
Tel: 01372 726 162 Fax: 01372 724 988
Email: enquiries@grayside.co.uk

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Beyond profit

How green is your pension?

The consequences of inaction on climate change are now impossible to ignore. Every company has an impact on the world around us. And by investing in them, so do we.

Devastating wildfires ripping through several countries, the aftermath of Storm Ida that caused unimaginable flooding across the northeast of the US, storm Arwen that brought disruption to the UK in November and last August's 7.2 magnitude hurricane in Haiti – all are examples of natural disasters due to climate change.

Increasingly more and more pension savers are asking where their funds are invested. Many people are no longer just concerned about getting the best returns, they also want their money to be used in a way that helps society and the planet.

CLIMATE RISKS

A survey finds that a third of pension schemes have already set targets to reduce their exposure to climate related risk[1]. 61% of schemes have considered setting a target to reduce their exposure to climate risks, but four in ten schemes have yet to consider climate risk targets and 28% say they will not be setting a target.

Of the 33% of schemes that have set or are in the process of setting a target, half have included an emissions-based target with the majority (70%) of these being a 'net zero' target.

PENSIONS INDUSTRY

UK pension schemes are a massive influence on the financial services industry, including how the climate-related risks and opportunities are identified, assessed and managed. This survey shows that the pensions industry is rising to the defining challenge of our age.

In another survey, two-thirds (67%) of consumers surveyed believe that it is important to consider Environmental, Social and Corporate Governance (ESG) factors before investing, and this figure rises to almost three in four (72%) for those respondents with a pension[2].

RESPONSIBLE INVESTING

ESG is an evaluation of a firm's collective conscientiousness for social and environmental factors. Interestingly, females are more likely to consider ESG investing at 70.4% than males at 63.9%, and its importance is broadly similar across all age cohorts.

While 51% of those with pensions would like to increase their investment in companies that are tackling climate change, some 70% of those respondents acknowledged the need to better understand the benefits of responsible investing, highlighting the fact that there is an onus on the industry participants to educate consumers in this space.

INVESTMENT DECISION

More than half (53%) of those surveyed believe that it is important that a company has a positive record of social responsibility and good corporate governance, rising to 60% of those with a pension.

The survey also explored the factors that are important to consumers when considering investing sustainably. Most respondents (75%) indicated that they would need good financial advice before making their investment decision, rising to 78% for those with a pension.

PENSION SUSTAINABLY

Two-thirds (67%) said they would only invest their pension sustainably if the returns were the same or better (71% of pension holders), and 64% said they would only consider doing so if they are not paying higher fees and charges (68% for pension holders).

Some 51% of those pension holders surveyed said they would like to increase their pension savings into companies helping to combat climate change, and only 20% of all respondents (17% of those with

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a pension) said that investing sustainably is more important than investment returns. ■

MAKE SURE YOU'RE INVESTING IN THE FUTURE AS WELL AS FOR YOUR FUTURE

Do you want to align your financial goals with your values? Your retirement savings could be funding climate change. Investing in socially responsible investments can help you to achieve your goals while focussing on the environment, social values and good governance. To discuss your options or any retirement concerns you may have, please contact us.

Source data:

[1] The Association of Consulting Actuaries 2021 Pension trends survey was conducted in the summer of 2021 and attracted 212 responses from employers of all sizes, running over 400 different schemes

[2] Aviva Life & Pensions Ireland DAC (Aviva), research of the 1,200 people surveyed 20.08.21

A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS PLAN HAS 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.