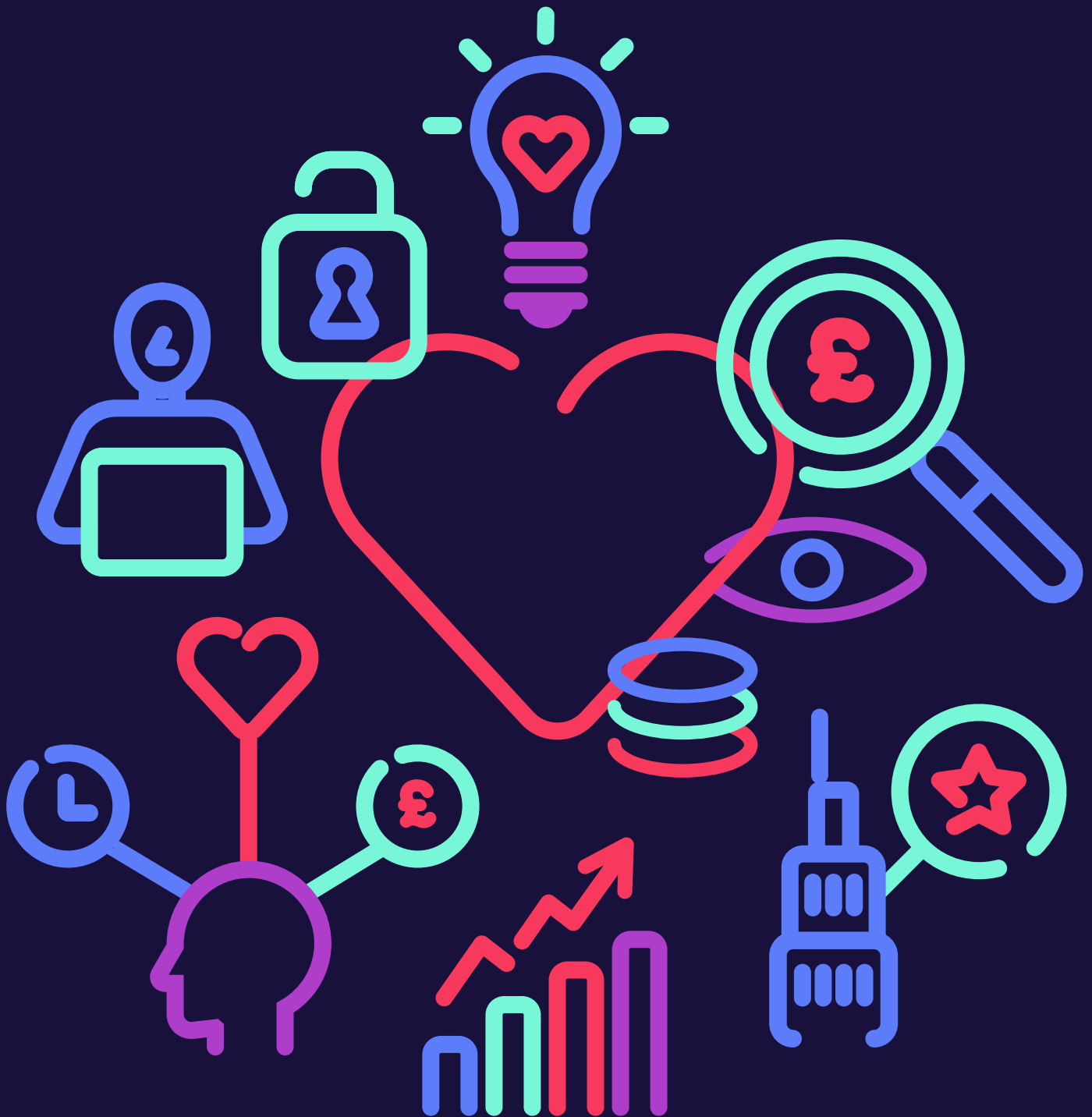


# The Power of Emotions



## Responsible Investment as a Motivator for Generation DC





**FRANKLIN  
TEMPLETON**

This report was commissioned and co-authored  
by Franklin Templeton in partnership with Adoreboard.

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Adoreboard, a Queen's University Belfast spin-off, is a pioneer in Human Experience (HX) using Emotion AI, the next frontier of artificial intelligence. Adoreboard unites customer and employee experience through its Human Experience (HX) measurement platform Emotics. Adoreboard's mission is to bring emotionally-intelligent insights into the digital world with its emotion recognition technology that measures Human Experiences that span customer and employee interactions across the enterprise. Adoreboard is a Gartner Cool Vendor in AI for Customer Analytics.

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# Contents

Chapter 1: <b>Executive Summary</b>	<b>04</b>
Chapter 2: <b>Translating the Power of Emotions to Motivate Generation DC</b>	<b>08</b>
Chapter 3: <b>How the Research was Carried Out</b>	<b>10</b>
Chapter 4: <b>Five Key Insights for the Pensions Industry</b>	<b>14</b>
Chapter 5: <b>Summary</b>	<b>38</b>



# 1

## A Changing Pension Environment

David Whitehair  
Director, DC Strategy



There have been significant changes in the UK pension landscape in recent years following government action to dramatically increase participation rates. The policy of automatically enrolling eligible employees into a pension scheme has tackled some of the structural changes required. However, we can be under no illusion that it has been a silver bullet for the challenges of engagement and contributions when it comes to pension savings. In this report we examine the role responsible investing (RI) can play in tackling these issues.

This report is focused on the first cohort of people that will rely predominantly on their defined contribution (DC) pension savings in retirement. Generation DC is made up of people in the millennial age group, currently aged between 22 and 38. The financial situation of millennials is frequently discussed, from their parents' role in their finances to their spending on avocado toast. But when it comes to pensions, how do younger savers really feel about their financial future?

Much research has been done indicating that younger people take issues that impact our environment and society more seriously than previous generations. As a result, we wanted to explore the role that RI could play in bringing about changes in pension saving.

It is our assertion that we need to move past viewing DC savers as statistics and better understand them as people. To do this, we need to explore the key themes that drive the behaviours and actions of Generation DC towards their pensions. Fundamentally, we need to uncover the emotional motivators that inform their decisions.



## A New Lens: The Power of Emotion

To carry out our research, we partnered with Adoreboard, a world leader in artificial intelligence (AI) focused on measuring emotional responses in order to quantify human experiences (HX). This enabled us to take a unique look into people's emotions in relation to workplace pensions and responsible investment. We surveyed more than 2,700 people who are part of Generation DC in the UK, to pinpoint the intensity of emotional responses to the key themes of responsible investing.

Importantly and perhaps surprisingly, the research reveals that Generation DC does express intense emotion towards pensions. While the study shows that this group views their pension as primarily there to provide an income in retirement, their views and feelings around pensions are also motivated by their values. The research finds that only 22 percent of Generation DC respondents feel that their pension is aligned with their values.

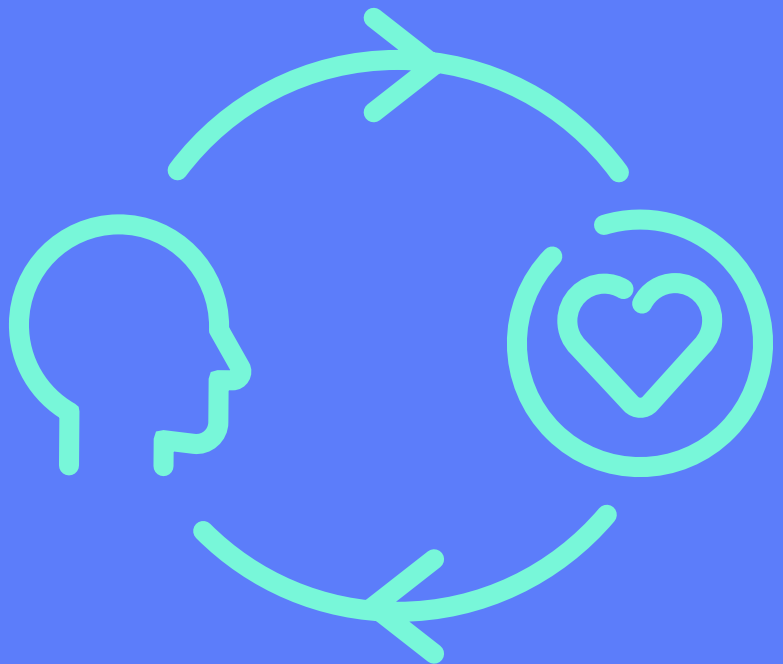
Issues relating to RI are something that many in Generation DC are passionate about, and this was confirmed by our research. The most telling figure was that 45 percent of people would be willing to make additional contributions if RI was incorporated into their pension. This matters a great deal because current contribution levels are unlikely to be high enough for people to reach the accepted target of two-thirds of income in retirement. More than 50 percent of respondents also believe that RI should be incorporated into the default investment strategy.

## Exploring the Emotional Experience Gap

Our findings show a clear misalignment between how young people feel about RI and what their pension currently delivers in this area. This culminates in what we have dubbed the emotional experience (EX) gap, which encompasses the pension challenge for Generation DC and the distance between what they want from their pension scheme and what is currently provided. RI can be one of the catalysts to help close this gap and bring about meaningful change. Based on our calculations, an additional £1.2bn<sup>1</sup> of employee contributions could be invested annually by this generation if RI was incorporated into their pension. This would represent close to a 20 percent increase in the amount currently contributed by employees.

This report investigates the emotional factors that matter most for Generation DC when it comes to RI, and offers five key insights, with takeaways and recommendations for the pensions industry.

**Our findings show a clear misalignment between how young people feel about RI and what their pension currently delivers in this area**



# £1.2bn

An additional £1.2bn of employee contributions could be invested annually by this generation if RI was incorporated into their pension



# 20%

This would represent close to a 20 percent increase in the amount currently contributed by employees



<sup>1</sup> Calculations are based on the total 6.21million DC savers aged between 22-39 (source: ONS ASHE Survey 2018) and earning the median salary in the UK for this age group £28,086 pa (source: ONS annual employment survey 2018). Qualifying earnings calculated as £21,950. This number excludes any additional matching employer contributions.

# 2

## Translating the Power of Emotions to Motivate Generation DC

To address the emotional experience gap, we've identified three core areas that would motivate Generation DC to action:

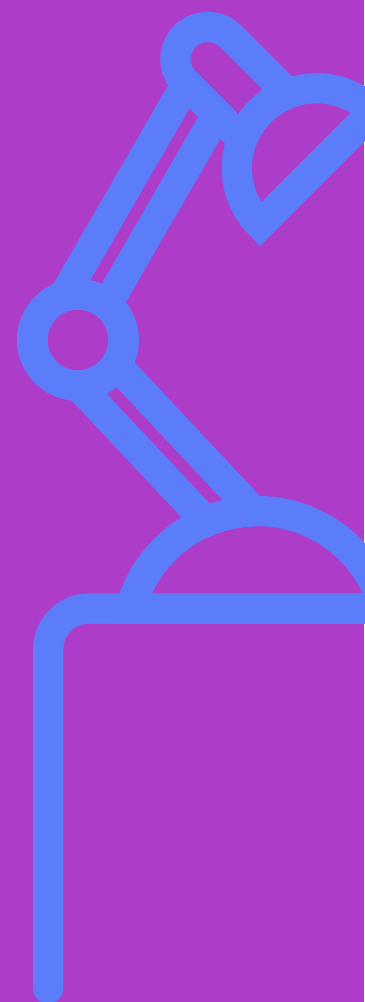
- 1) **Alignment:** 78 percent of Generation DC survey respondents indicate that their current pension provision either doesn't align with their values or they don't know if it does. A similar proportion also said they would engage with their pension savings statement if information on RI was included.

**We recommend retirement savings influencers (pension scheme operators, sponsors, advisers, investment managers and regulators) should:**

- > Develop better ways to understand pension scheme members and their opinions using the latest analytics technology to build surveys, assess and publish the results.
  - > Respond to Generation DC's wishes for clearer information on where their money is invested and the impact it is having.
  - > Raise the profile of responsible investing by sharing information about what is being done to better reflect people's values through the pension scheme.
- 2) **Inspiration:** Generation DC express strong emotions about issues relating to RI which, if leveraged, could provide positive motivators for action. The key to this is to understand the issues they care about, and our research shows 55 percent name climate change as a top priority issue.

**Retirement savings influencers should:**

- > Help inspire more young people by reframing the earliest pension communication with new employees to highlight examples of how a pension can contribute positively to society and promote the positivity felt by many employees towards their pension.
- > Understand the issues that people care about and deliver investable solutions.
- > Deliver regular, digestible updates on how pension savings are being put to work to tackle the issues that are important to the savers.



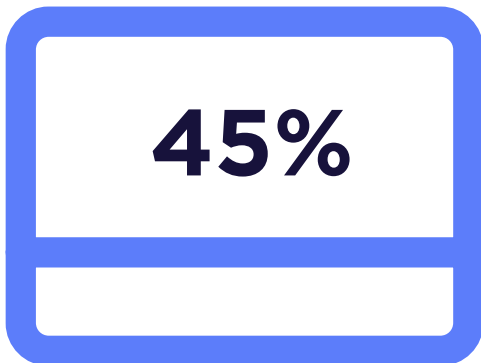




**78 percent of Generation DC survey respondents indicate that their current pension provision either doesn't align with their values or they don't know if it does**



**Our research shows climate change as a top priority issue**



**45% percent of respondents would be motivated to increase their own contributions if their pension incorporated RI**

- 3) **Empowering action:** Some 43 percent of Generation DC survey respondents ranked their employer's contribution as the most important attribute of their pension. However, 45 percent of respondents would be motivated to increase their own contributions if their pension incorporated RI, which we estimate would lead to a £1.2bn increase in contributions over the next decade.

**Retirement savings influencers should:**

- > Make it easier for people to contribute more – too often it is an arduous process that puts people off.
- > Consider reshaping the default investment option to incorporate a clearer focus on RI.
- > Assess how appropriate various ethical funds are to the specific concerns of Generation DC, and include other investment options from the RI spectrum, e.g. impact funds.
- > Consider innovative ways to support people in this area such as “round-up” contribution models whereby pension scheme members can sign up to automatically have their monthly contributions rounded up to the nearest £10/£100 and that amount invested into an RI investment fund.

As always, turning the insights identified in the report into action will require us collectively to think anew. We invite you to join the conversation on how best to close the current emotional experience gap with Generation DC in the coming months and years ahead.

# 3

## How the Research was Carried Out

Generation DC is made up of people in the millennial age group that are within the auto-enrolment age range (22-38). Unlike older generations who are likely to have an element of defined benefit (DB) pension provision and property wealth, Generation DC are more likely to have to rely heavily on their accrued DC pension savings to fund their retirement income needs.

For the purposes of this research, we use RI as an umbrella term to refer broadly to any investment strategy that takes account of environmental, social and governance (ESG) factors. There are many of these factors, including: natural resource use and scarcity, pollution, product safety, employee health and safety, and shareholder rights. Previous research has done a good job of establishing the interest that younger savers have in many of these issues. However, little or no work has been undertaken to examine the emotions behind this, which could lead to new insights.

Our reason for focusing on people's emotions is based on the fundamental premise that it is the emotion and its intensity that drives decision-making and action. Writing in *American Scientist*, Professor Robert Plutchik set out not only a way to define emotions but also a way to put forward a functional framework for understanding and measuring human emotion. His view is that emotion is a complex chain of "loosely connected events that begin with a stimulus and includes feelings, psychological changes, impulses to action and specific goal-oriented behaviour". More recently, Harvard professor Gerald Zaltman noted in his book *How Customers Think: Essential Insights into the Mind of the Market* that as many as 95 percent of purchase decisions are driven by emotion.

Given society's increasing focus on ethical consumerism, the environment and fair working conditions, now is the time to explore the impact that RI could have on the pension choices of Generation DC. By applying the lens of human emotion, we can understand the issues from a new perspective, shedding light on the nuances of how these issues trigger emotions, shaping perceptions and ultimately driving decision-making.

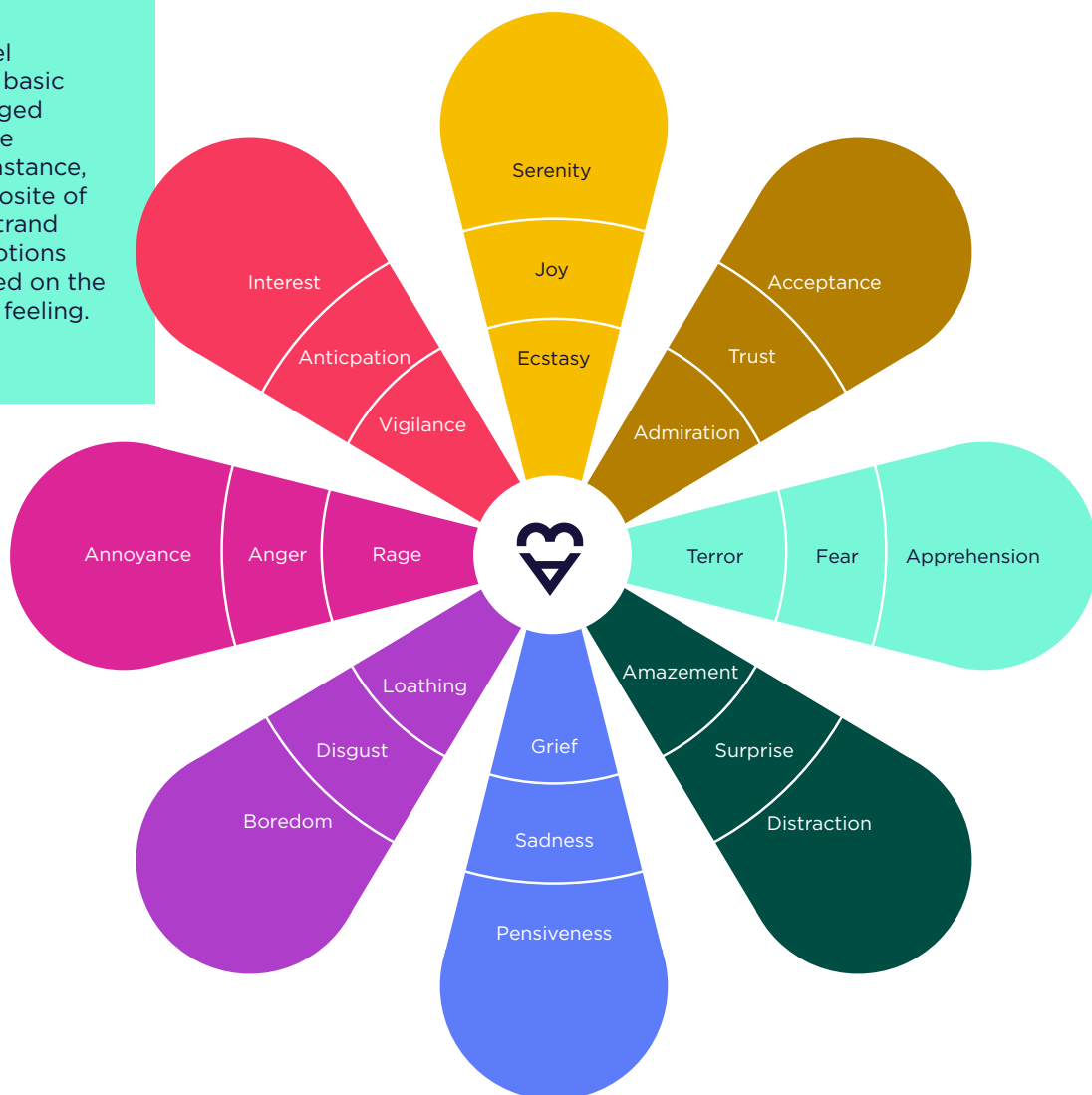
# Methodology

In order to conduct this research, Franklin Templeton have partnered with Adoreboard, which uses AI to translate and map the emotions that people express through its HX measurement platform, Emotics. Adoreboard can analyse any text such as survey responses using its emotion analytics platform.

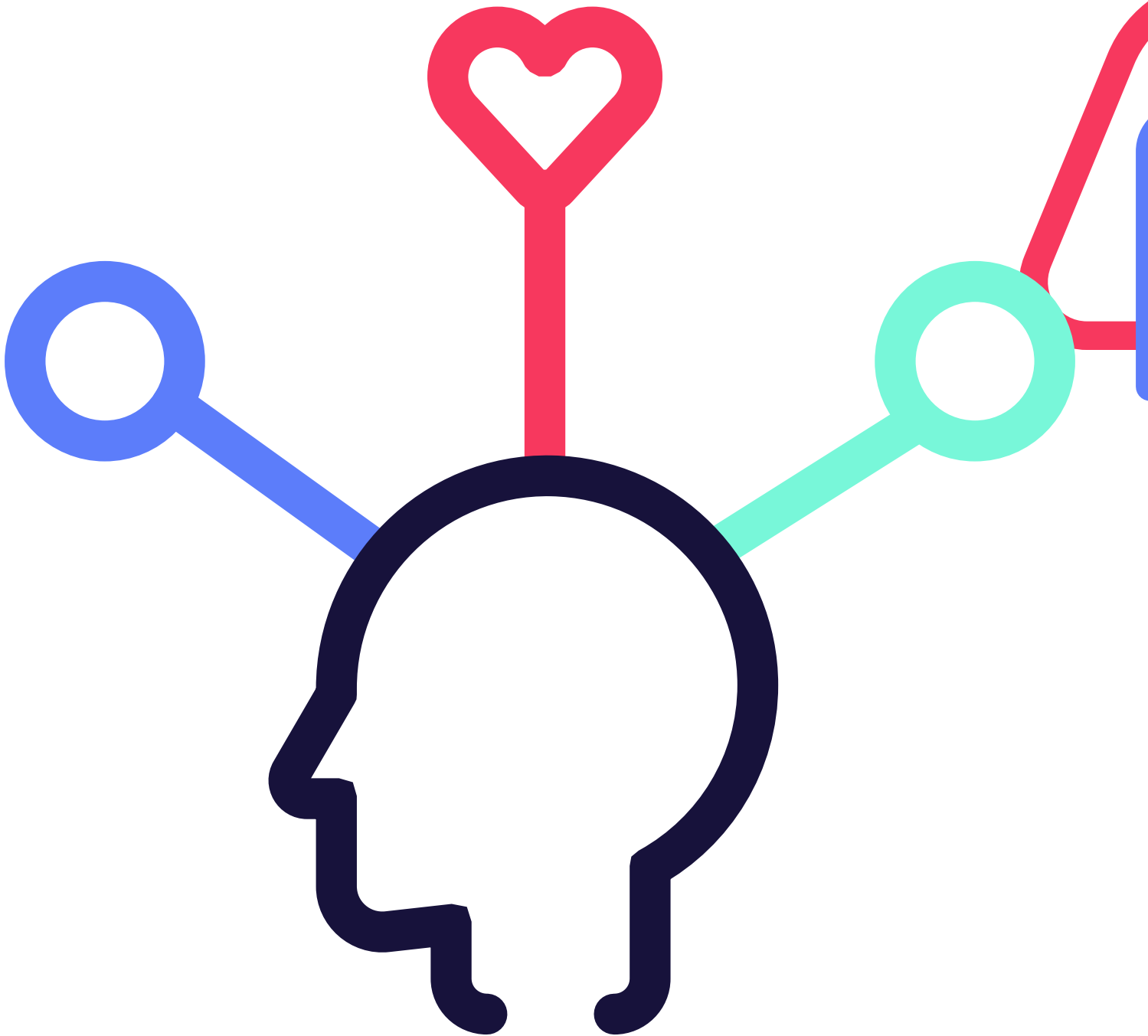
The science behind Emotics is based on blending common-sense reasoning with affective computing to create an index for each primary emotion in Plutchik's Wheel of Emotions. There are eight emotion indices based on a model of emotional intensity - Joy, Trust, Interest, Surprise, Sadness, Disgust, Anger and Apprehension. Each index is scored from 0-100 and consists of three emotions. For example, the Joy Index moves from the low-intensity emotion of serenity, to the medium-intensity emotion of joy, to the high-intensity emotion of ecstasy. An overall Adorescore, calculated from contributions from each of the eight indices, provides an overall perspective on the performance of an issue.

Plutchik's model proposes eight basic emotions arranged around opposite emotions; for instance, grief is the opposite of ecstasy. Each strand charts how emotions can evolve based on the intensity of the feeling.

## Plutchik's Wheel of Emotion



**Our reason for focusing on people's emotions is based on the fundamental premise that it is the emotion and its intensity that drives decision-making and action**





## Data Collection

# 2,700 people

**More than 2,700 people across the UK were screened and recruited to a research panel between April and May 2019.**

They were asked a series of questions about their workplace pensions using a mobile phone app-based survey. The survey asked a total of 29 questions enabling both qualitative and quantitative insights. Respondents were aged between 21 and 38, were in full-time employment and living in the UK, making them highly likely to be a member of a workplace DC pension scheme (or soon-to-be a member for those aged under 22).

Once invalid responses were removed, the responses were analysed using Emotics to determine the emotions felt by the group about their pensions. Topics covered included their workplace pension, RI, responsible companies and issues that they care most about. Emotion metrics, including an Adorescore and index scores, were generated for the analysed responses to help determine which topics derived the most emotional engagement.

This survey was also supplemented with analysis of social media content, particularly in relation to the issues that people reported that they cared about, to further assess the discourse among this generation.

The demographic information of this sample of 21-38 year olds is as follows: Gender breakdown: 40% male, 60% female. Geographies: Greater London, 16%, South East 15%, North West, 11%, Scotland 10%, Yorkshire and the Humber 9%, East Midlands 8%, South West 8%, West Midlands 8%, North East 5%, East of England 5%, Wales 4%, Northern Ireland 2%.

# 4

## Five Key Insights for the Pensions Industry

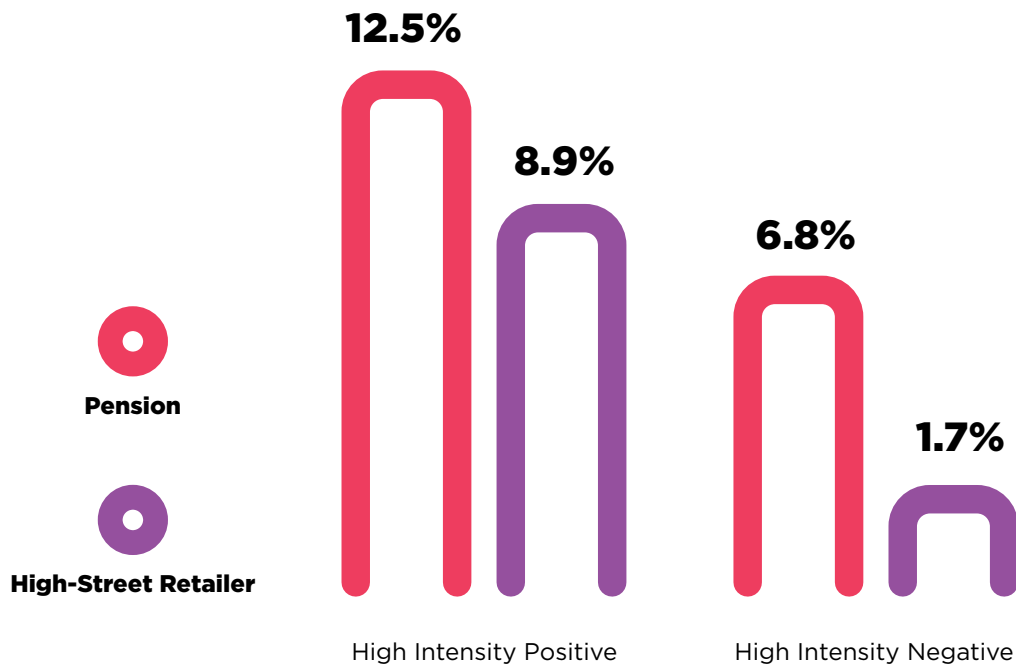
- 1 Misalignment**  
Workplace pensions may drive intense emotions, but they are not aligned with Generation DC's values.
- 2 Financial Value**  
Getting financial value from their pension remains the key priority for Generation DC.
- 3 Engagement**  
RI draws out strong emotions, presenting a powerful engagement opportunity.
- 4 Principles**  
The overlap between Generation DC's views and RI principles presents a clear opportunity.
- 5 Catalyst**  
RI can be a catalyst to encourage Generation DC to put more into their pension.

# Insight 1: Misalignment

**Workplace pensions may drive intense emotions, but they are not aligned with Generation DC's values**

Workplace pensions are an emotive issue for Generation DC, with a significant volume of high-intensity emotions being expressed in their responses to questions about their pensions. When asked, "How do you feel about your workplace pension?" we found 19 percent of responses showed high-intensity emotions, mainly positive (see graph below). To provide some context, we asked a similar group how they felt about their favourite high-street clothing retailer and found their responses contained 11 percent high-intensity emotion.

## Intensity of Emotions Expressed Towards Pensions and a High-Street Retailer



Perhaps the more surprising statistic is that more than twice as many people reported positive feelings about their pension than negative. The main drivers behind people's positivity included the size of employer contribution and a trust in employer judgement. On the other hand, reasons for negativity included small employer contributions, a lack of choice (of provider and investment) and the level of personal contributions.

However, the not-so-good news for the pensions industry is that Generation DC do not feel their pensions reflect their values – only 22 percent felt that they did. Negative emotions including sadness and even disgust featured when respondents were asked to evaluate pensions based on how closely they are linked to their values. Emotions are especially strong when people feel that their pensions do not contribute positively to society.



## Takeaways

### Demonstrate both values and value for money:

- > Scheme operators should consider how they could better reflect people's values in the pension offering. A starting point would be to consider researching their opinions and sharing the results. Scheme operators will also want to show how a scheme offers value for money and employers will be concerned that a scheme be regarded as a valuable part of the benefits package.
- > Regulators and policy makers may consider extending current provisions to take members' values into account across all DC scheme types.

### Focus on the positive:

- > Particular effort should be paid to reframing the earliest communication with pension scheme members. When employees first enrol in a scheme, the communications they receive are typically full of unfamiliar technical language and considerations. We recommend taking the opportunity to focus on the positives offered by the pension scheme, including how it may meet member values – for example, by providing capital to business and contributing to responsible investment objectives.
- > The positivity of Generation DC towards their scheme, perhaps illustrated with case studies and testimonial quotes, should be used to help other young people, particularly those yet to form an opinion, feel more positive towards their pension savings and understand the value of this financial benefit.





**“It (My pension) reflects my selfish values – i.e. it is making me money – but I do not think it reflects my altruistic values, in that the investments are not in sustainable companies”**

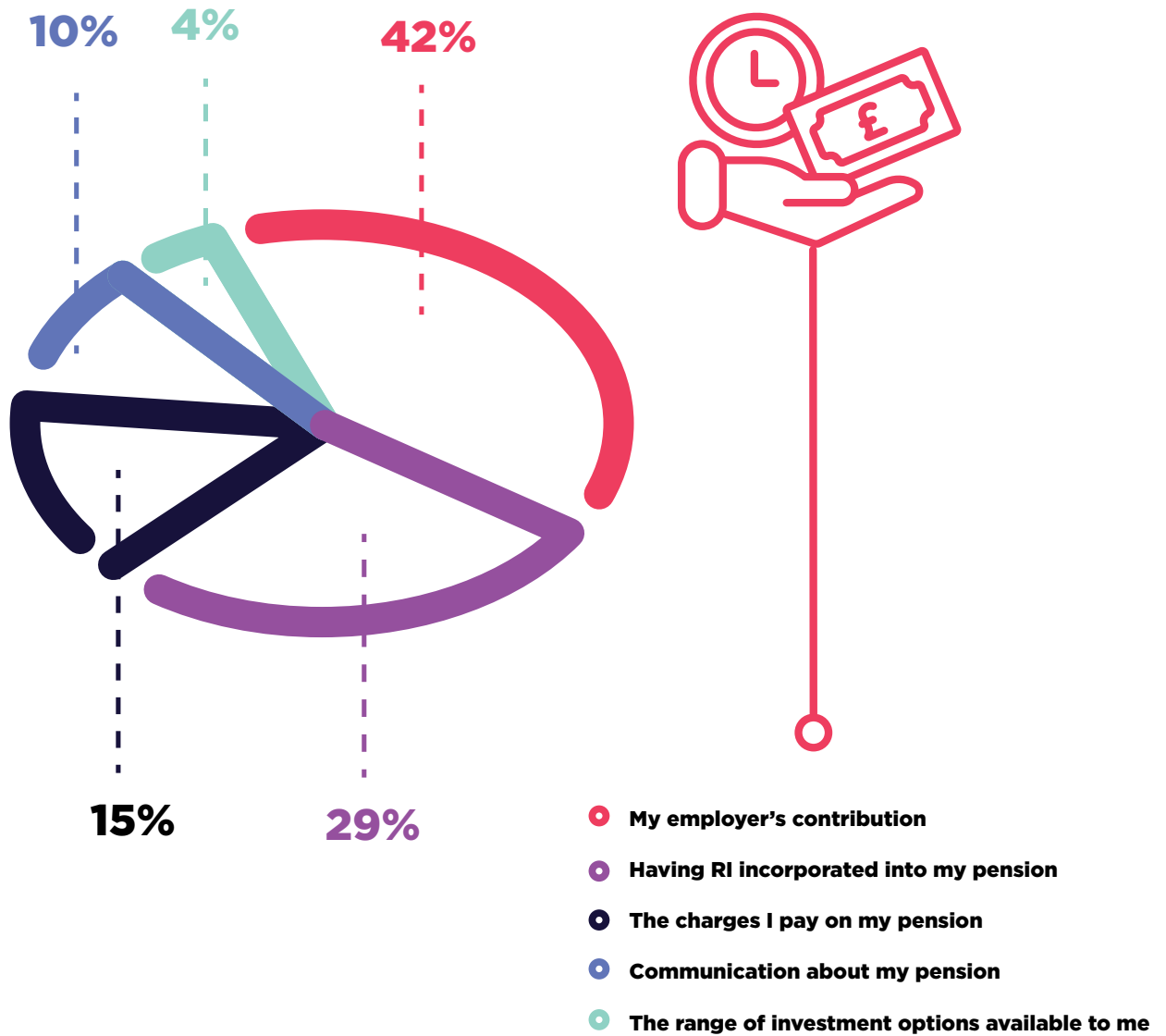
**“My pension doesn’t reflect these values as the money isn’t being invested in funds or companies that use the money to benefit the environment in some way or to reduce packaging”**

## Insight 2: Financial Value

**Getting financial value from their pension remains the key priority for Generation DC**

The purpose of a pension scheme is to accumulate a fund of money for retirement, so it is not a surprise that financial considerations, especially employer contribution levels and investment returns, are a top priority for Generation DC.

### Attributes of Pensions Ranked as Most Important



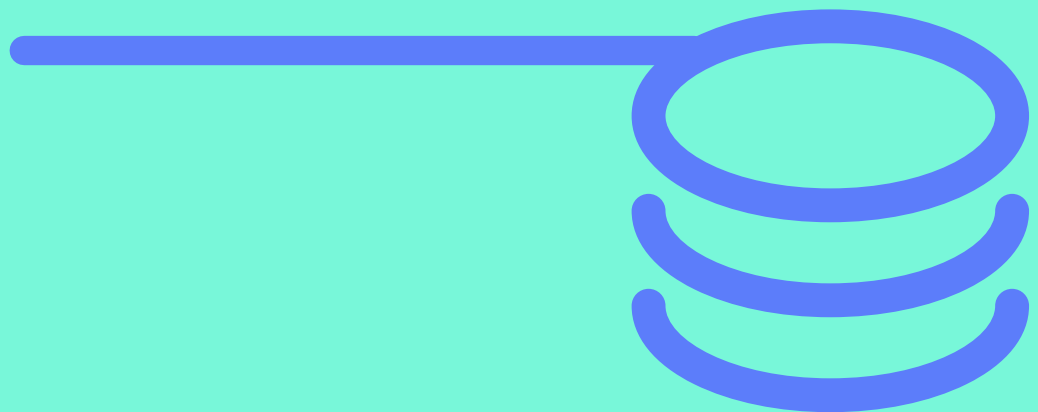


The largest single component of feeling positively about their workplace pension was being happy with their employer's contribution, while the employer not paying enough was the largest single component of feeling negatively. When asked about the importance of a selection of pension attributes, 42 percent ranked employer contribution as the most important attribute to them.

These factors greatly impact this group's feelings towards their workplace pensions and their thinking on increasing their own contribution. In fact, when asked an open question on increasing contributions, 81 percent of respondents named a variety of financial factors, including better returns, higher base pay and increased employer contribution, as key to this decision.

Employer contributions play a major part in respondents' level of trust and interest in their workplace pension, while good returns are an important factor when they are considering increasing their contributions.

**The employer  
not paying enough  
was the largest  
single component  
of feeling negatively**





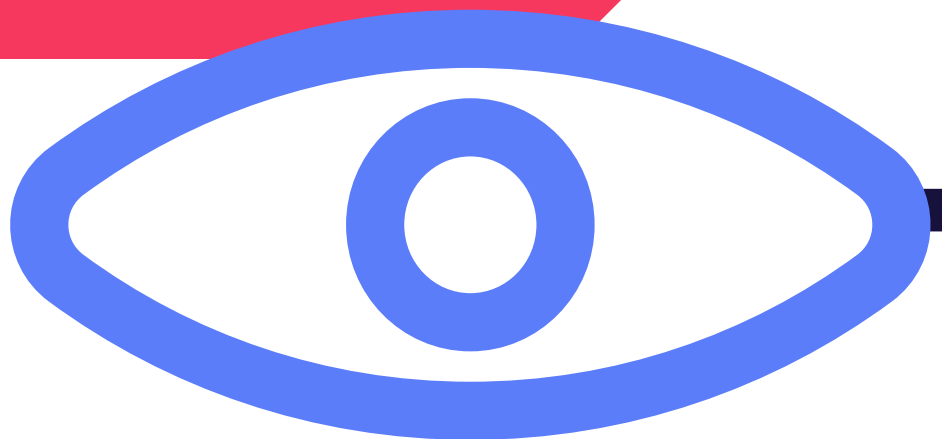
## Takeaways and recommendations


### Show the financial value:

- > Scheme operators should consider every opportunity to show the financial value of the scheme, particularly the level of employer contributions. A holistic benefits statement is an approach that could be adopted by more employers. Typically, this would detail the total value of annual financial benefits, including employer contributions, alongside base salary, healthcare, company car and any overtime and bonus payments. This will help raise the profile of pensions as a workplace benefit.
- > A more innovative approach, in line with Generation DC's communication preferences, could include modern banking-style phone push notifications to alert people of employer contributions made. This would help promote some of the key benefits of the workplace pension, namely the consistency of payments made by the employer.

### Talk people's language:

- > The pensions industry talks in terms of percentage rates for pension scheme contributions. However, most employees are more likely to be engaged by contribution values expressed as monetary amounts. This may also encourage more people to take advantage of employer contribution matching programmes.
- > In a similar vein, it is well documented that pension scheme members want to know the return they have made. Too often it is left to the member to approximate a personal rate of return from the values on their statement/fund provider's factsheets. Why not provide a simple personal rate of return to make this crystal-clear, displayed in both percentage and monetary terms?





**“I feel good as  
my employer  
contribution is  
twice as high as the  
minimum required”**



**“I like the  
contribution my  
employer makes  
and like seeing my  
money build”**

## Insight 3: Engagement

**Responsible investing draws out strong emotions, presenting a powerful engagement opportunity**

Generation DC responds positively and with strong, intense emotions to RI issues ranking it second in importance in a list of attributes of their pension – higher than fees, communication and investment options.

The lowest levels of high-intensity emotions came when questions about pensions became more technical. When questions became less linked to Generation DC's interests and values, they also lost emotional engagement.

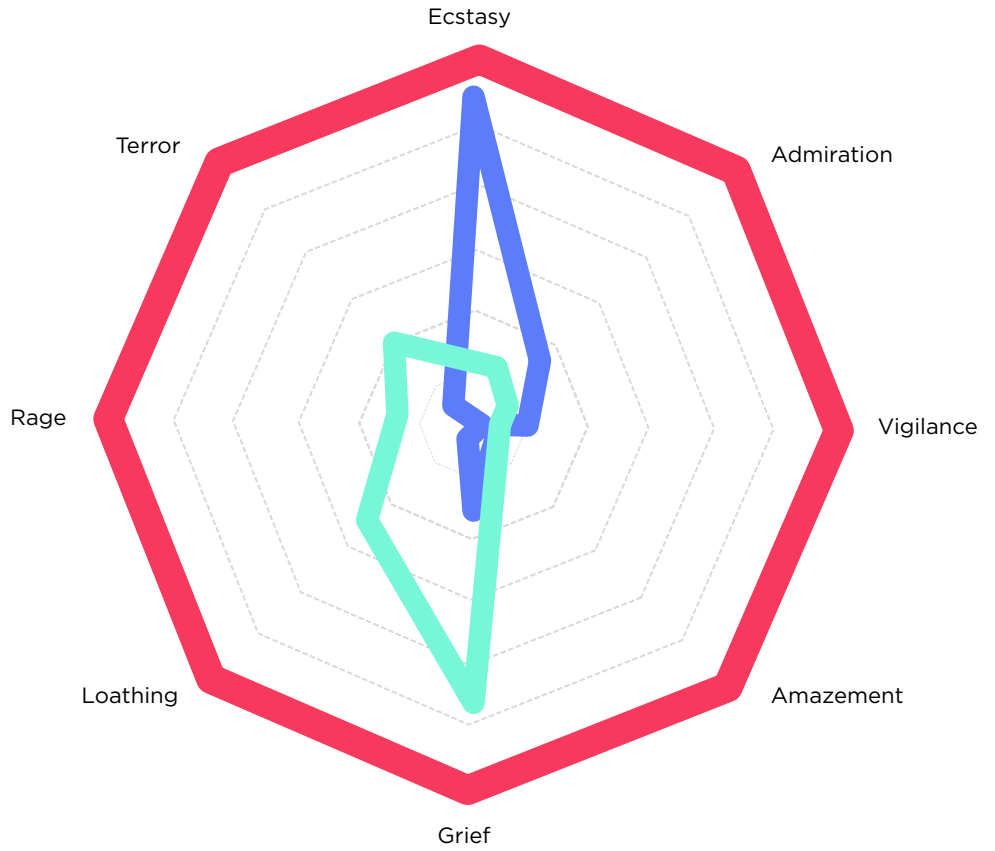
Many of our Generation DC respondents expressed feelings of joy and even ecstasy about RI, associating it with good returns and an alignment with their personal beliefs. When reflecting on the link between companies and their values, people expressed strong positive emotions (ecstasy and trust) towards companies that they perceived as having good RI practices, and equally strong negative emotions (grief and disgust) towards those that didn't. Helping people make the link between their pension, companies and their role as an investor can lead them to a clearer understanding of how their pension can contribute to a better world.

**Many of our Generation DC respondents expressed feelings of joy and even ecstasy about RI**

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**The intense emotions displayed when talking about company practices**

*High Intensity Emotions*



What companies do you associate with poor responsible practices and behaviours? Why?

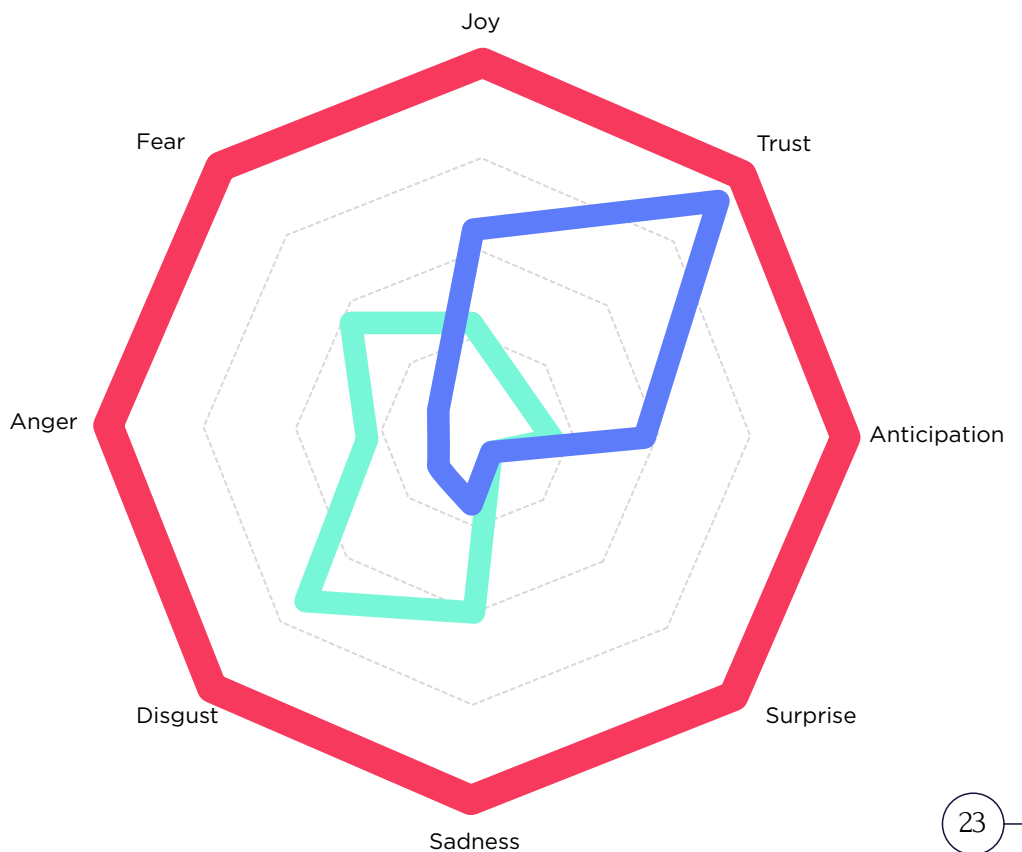


What companies do you associate with good responsible practices and behaviours? Why?

**Radar charts explained:**

Within Plutchik's Wheel of Emotions, emotions move from low intensity to high intensity (e.g. acceptance to admiration). When text is analysed for emotion by the Emotics platform, we are able to see the breakdown of each of the 24 emotions from Plutchik's model, categorised into the three levels of intensity outlined in the model. These charts give you an overview of the emotions expressed in the responses to questions about business practices. We see that when people talk about good practices, they talk with high levels of ecstasy and trust, while discussion about poor working practices are dominated by disgust, grief and sadness.

*Medium Intensity Emotions*



Engagement on RI and giving people greater knowledge of the part that their pension can play could have a large impact on pension scheme members' behaviour. Those who do not consider RI factors do so largely due to a lack of clear information and a belief that it means sacrificing returns. These issues can be addressed by the pensions industry: when asked about the information that people want on their statement, RI is not frequently considered, but when presented with several options, RI and the companies that the pension fund has invested in come out on top.

**A majority (78 percent) of Generation DC respondents also said that they would engage with their statement if information on RI was included, and they want the information at their fingertips in an app (58 percent)**

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## Takeaways

### Raise the profile of RI within pension schemes:

- > RI can play a role in helping to create employee interest and trust in their pension. By helping people to understand that they are investing in the companies about which they feel such strong emotions (whether good or bad), we can bring pensions to life. A clear call to action for the fund management industry is to provide examples of the stewardship and engagement undertaken as well as articulating how RI, in many of its investable forms, can produce better returns. Scheme operators should also consider how to incorporate RI ratings on fund material, similar to the way that investment risk ratings are included.

### Developing an RI policy is increasingly important:

- > Trustee boards and governance committees should consider their policy on RI, ideally after canvassing scheme members' interests and values. Boards of trust-based schemes at least can no longer be entirely neutral on the subject, with new regulation compelling them to take account of "material financial considerations (e.g. climate change)". Regulators should seek to introduce a similar measure across all schemes.

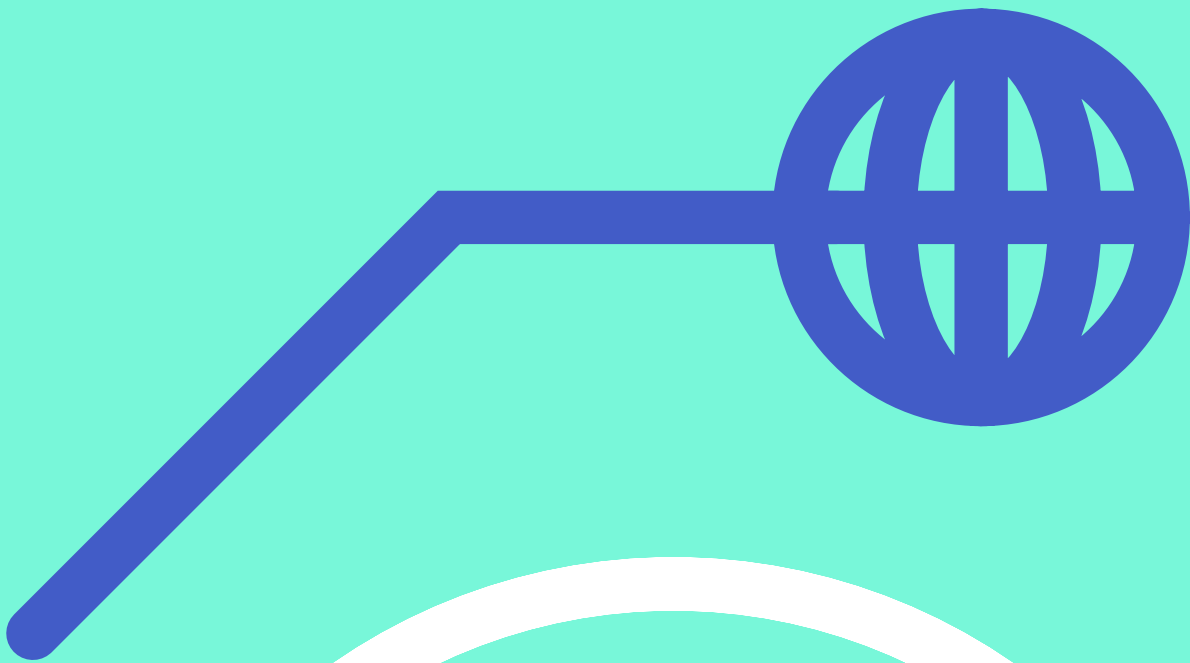
### Schemes need to educate themselves:

- > To fully embrace RI as an engagement tool, schemes must themselves understand the RI spectrum – from ethical exclusion through ESG integration and engagement to dedicated RI strategies and impact investing. In this regard they should look to investment managers and advisers for information, and potentially for tangible examples of RI in action.

### Regulators to set clear RI standards and definitions:

- > The industry is seeking clarity around definitions and standards within the RI universe. This has begun to happen within the UK by both the Investment Association and the FRC's UK Stewardship Code revisions, as well as through the EU Action Plan on Sustainable Finance. We believe more needs to be done additionally to understand investors' RI preferences to enable actionable decision making at pension scheme level.

**“Looking after the environment is high on my scale of personal goals therefore (it) would be great as a (part of) responsible investment”**



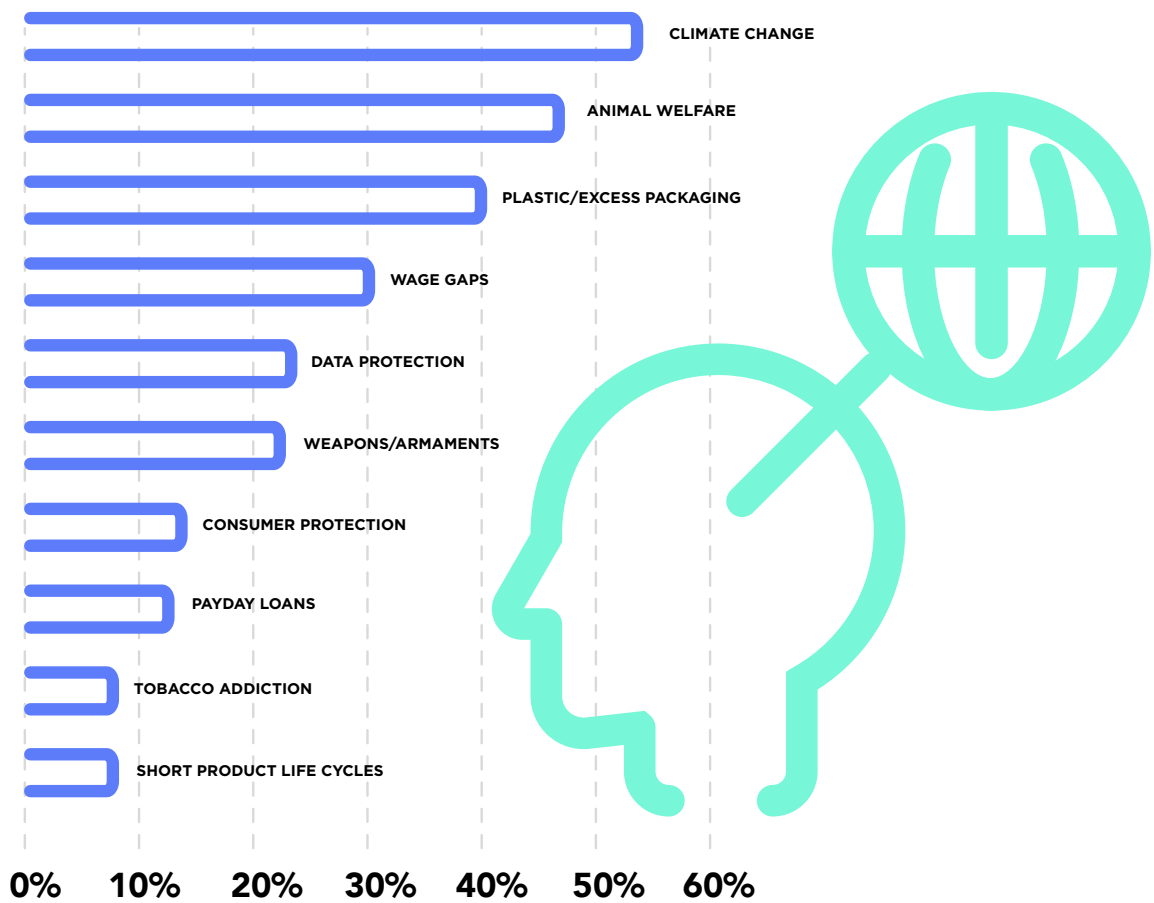
**“I care most about  
the environment and  
the future of our planet;  
without that we have  
nothing anyway”**

# Insight 4: Principles

**The overlap between Generation DC's views and RI principles presents a clear opportunity**

There is clear alignment between the issues that Generation DC cares about and those which many in the fund management industry focus on through RI. The issues that people care about are also frequently urgent global issues. The top issues that survey respondents most identified with were: climate change (55 percent), animal welfare (48 percent) and plastic/excess packaging (41 percent).

## The Issues that are Most Important to Generation DC



Percentage of respondents who reported caring most about the issue (respondents were asked to select their top three issues)

**Summary of key issues:**

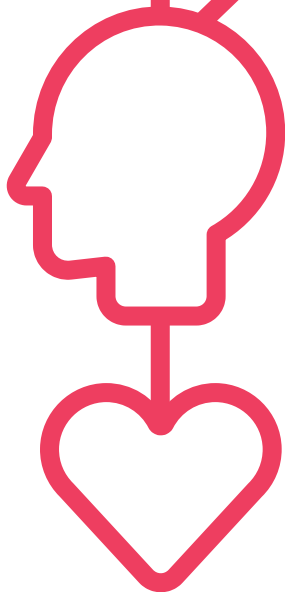
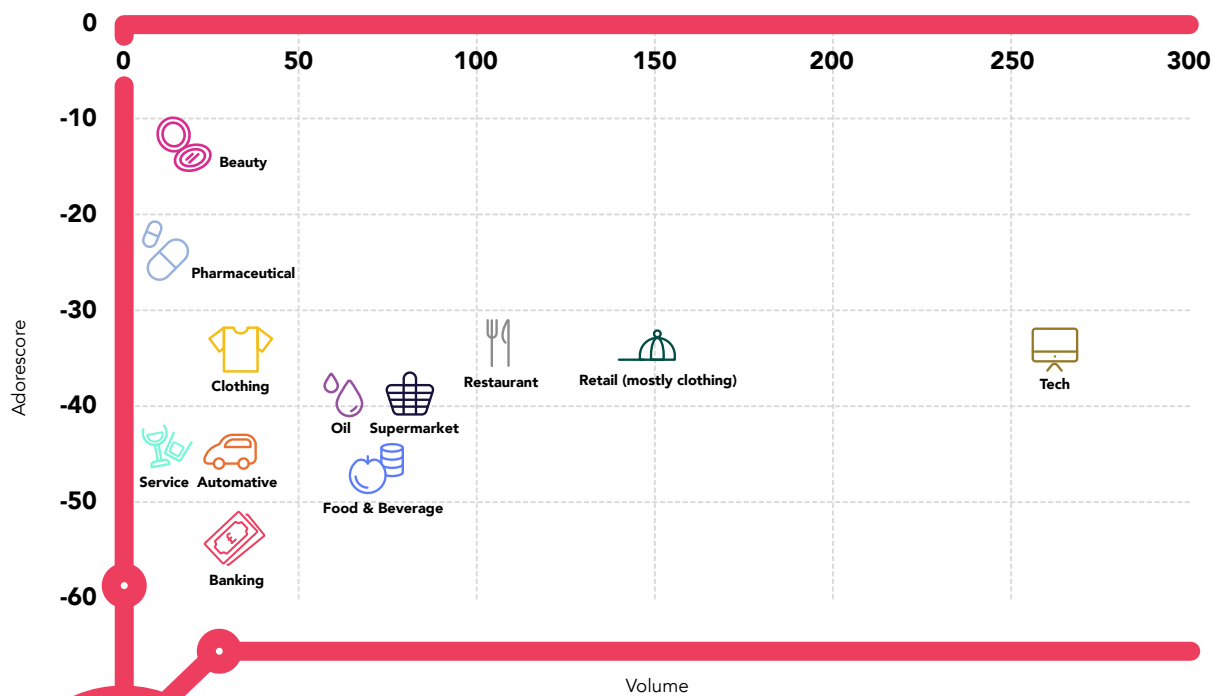
- 1. Climate change:** Through looking at online conversations about these three top issues, climate change was the most emotive, with higher levels of high-intensity negative emotions (such as loathing and rage). These negative emotions are frequently directed at companies linked to fossil fuels or high emissions, with harsh criticism of “greenwashing”.
- 2. Animal welfare:** When it comes to corporate ethics, animal testing is a big consideration for many people. It is discussed online with language evoking grief and loathing, and it is particularly linked to cosmetic and pharmaceutical companies. Conversely, when a company announces a ban on animal testing, the response is dominated by joy and trust.
- 3. Plastic/excess packaging:** The anti-plastic campaign has been gathering steam in the past few years, and people continue to reach out online to put pressure on companies which they feel are not doing their part to reduce their plastic waste. Although many in our survey praised the ethics of supermarkets for their treatment of staff, disgust is expressed towards supermarkets with bad reputations for excess plastic use.

Issues close to the hearts of many in Generation DC are often related to the attributes of sustainability, ethics and good labour practices, and these can play a huge role when evaluating companies. Negative attributes of companies were also linked strongly with key ESG factors such as executive pay, labour practices, tax avoidance, environmental damage and animal testing.



Not all industries are created equal in the eyes of Generation DC, and it is interesting to note which industries are associated with the most intense negative emotions. Energy, which is often a traditional focus, is surpassed by banking, services and the automotive industry when it comes to negative emotions. This suggests that recent scandals have had a big impact on this generation's views and the emotions that they feel towards certain industries.

**The Industry Sectors Associated with Poor Responsible Practices and Behaviours**



**The Adorescore is a summary metric of the emotions expressed, measured on a scale of -100 to 100. This gives you an indication of how people are discussing a given topic.**

*The Adorescore is a summary metric of the emotions expressed, measured on a scale of -100 to 100. This gives you an indication of how people are discussing a given topic. For example, a high Adorescore indicates higher levels of positive emotions like ecstasy and trust, while a lower score indicates the presence of more negative emotions like anger and sadness. The above graph maps out emotion and volume of the sectors associated with poor responsible practices and behaviours. As a result, the Adorescore is highly negative, falling between -13 and -50*

## Takeaways

### Transparency starts at home:

- > All firms and schemes within the pensions supply chain should consider the issues that Generation DC care about and communicate their own stance towards them. Publishing carbon footprint data, gender pay gap information, executive pay structures and policies on diversity and inclusion, for example, will help build trust and respect.

### Highlight RI measures already taken:

- > Providers and scheme operators should consider how they could build trust in workplace pensions by communicating how they are addressing the key issues (or are planning to address them). For example, given the alignment of the issues with ESG analysis, investment managers could give examples of how they are addressing (or planning to address) the key issues. Scheme operators could also point to existing RI focused investment options or share plans for new options.

### Is ethical exclusion meeting modern needs?

- > One approach to RI is offering ethical fund options to investors. These funds have existed for many years, typically available as self-select options, but have failed to attract many assets. Investment managers and scheme providers should take the opportunity to reflect on whether the latest views of Generation DC are reflected in ethical exclusions.

**“I prefer companies that are environmentally friendly, invest in green energy, fair trade and support policies that are good for the planet and people”**

## Insight 5: Catalyst

**RI can be a catalyst to encourage Generation DC to put more into their pension**

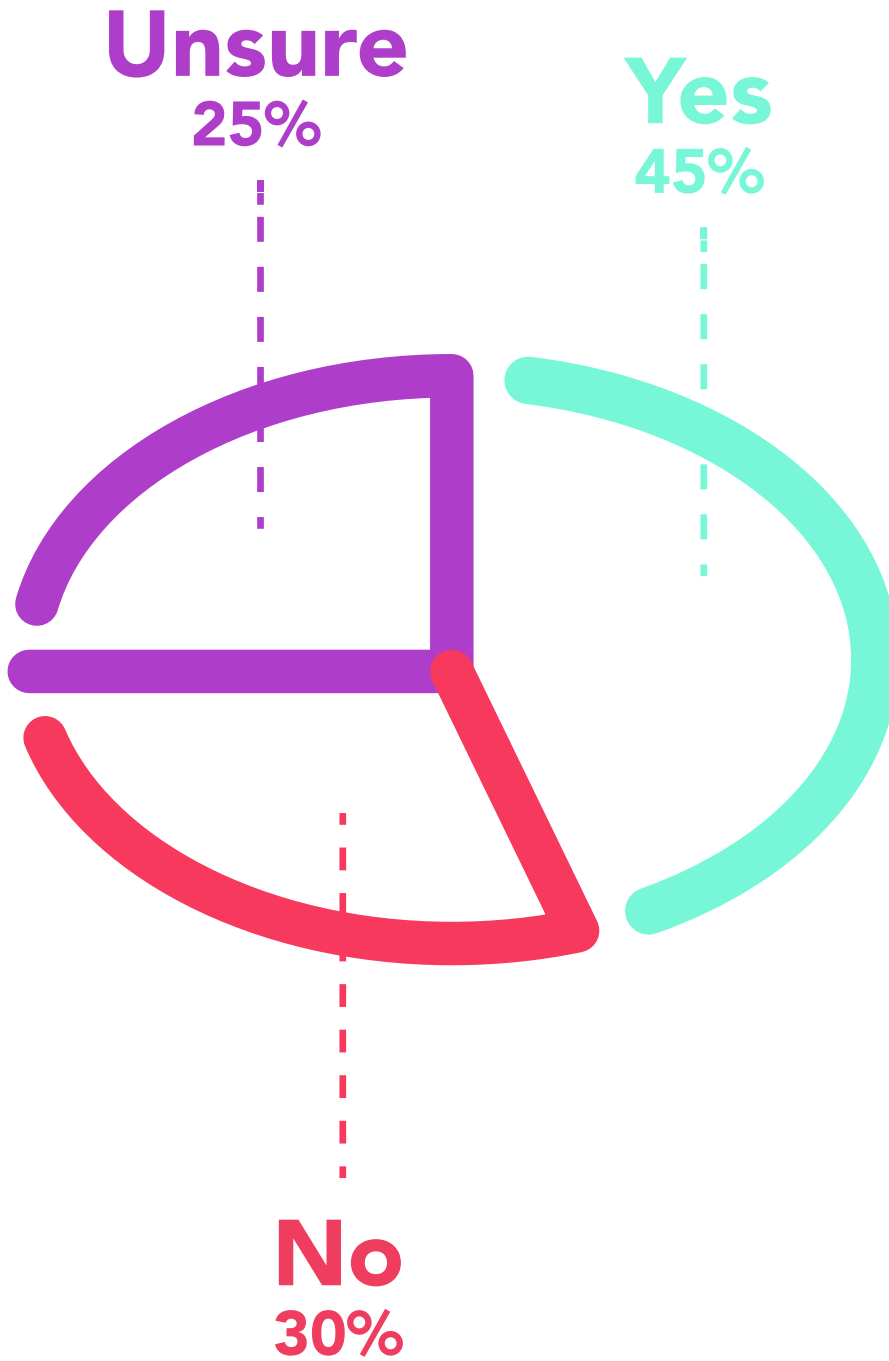
**70 percent say that they would contribute between 1 percent and 3 percent extra per month**

RI is a powerful motivator for this generation. A surprisingly high proportion (45 percent) of Generation DC report that they would be more likely to pay more into their pension if they knew that RI was incorporated, expressing both joy and interest about the topic. For those motivated by RI, the amount by which they would increase their monthly contributions is very material: 70 percent say that they would contribute between 1 percent and 3 percent extra per month.

The additional pension savings that would result from an increased contribution on that scale could have a significant impact on people's retirement provision. Contributions are the main driver of pot size at retirement, and average current contributions are likely to be too low for people to reach the accepted target of two-thirds of income in retirement.



**Likelihood of Increasing Pension Contribution Based on Responsible Investing Inclusion**



**If our findings became reality,  
based on our calculations,  
Generation DC members alone  
would be willing to add an  
additional £1.2bn in additional  
contributions per annum.<sup>1</sup>**

To put this figure into context, total annual contributions into workplace DC schemes in 2018 are estimated at £29bn: £7bn by employees and £22bn by employers<sup>2</sup>. Therefore, an additional £1.2bn from Generation DC would account for a nearly 20 percent rise in overall employee contributions. This only scratches the surface of the estimated £328bn<sup>3</sup> pension savings gap but would represent progress nonetheless.

These notable findings are supported by others in our research: 51 percent believe that RI should be built into the default investment fund, and there is strong interest in receiving more information about how RI is incorporated into pensions.



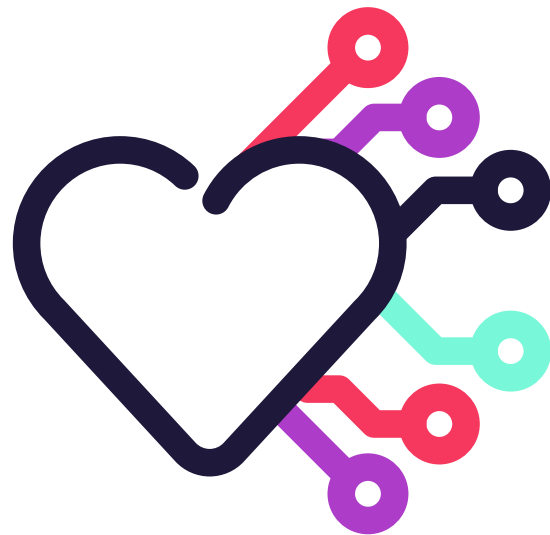
# £29bn

was contributed into workplace DC schemes in 2018: £7bn by employees and £22bn by employers



# 51%

believe that RI should be built into the default investment fund



<sup>1</sup> Calculations are based on the total 6.21million DC savers aged between 22-39 (source: ONS ASHE Survey 2018) and earning the median salary in the UK for this age group £28,086 pa (source: ONS annual employment survey 2018). Qualifying earnings calculated as £21,950. This number excludes any additional matching employer contributions.

<sup>2</sup> Sources: ONS MQ5 Table 4.3 Self-administered pension funds' income and expenditure and ONS PEN2 Personal Pensions (including stakeholder pensions): Scheme members' annual contributions

<sup>3</sup> Source: International Longevity Centre, 2017



## Takeaways

### Consider the RI investment options:

- > **In the light of these findings, and also the regulatory direction of travel, scheme providers should consider the RI investment options in their range. This includes reviewing the appropriateness of self-select options, potentially introducing impact funds, but more importantly considering options for incorporating RI into the scheme default. More providers are moving in this direction, most notably NEST and recently Aviva launching a new ESG lifestyle option for consideration by plan sponsors.**

### Make it easier to top-up:

- > **In many cases it is far more difficult than it needs to be for pension scheme members to increase their contributions or to top-up existing investments. Scheme providers should look at what can be done to simplify the process. For example, to look at simplifying the jargon used in respect of terms such “unit amount”, “consideration amount” and “percent amount”.**

### Introduce a “round-up contributions” initiative:

- > **Where RI options are already present, one way of harnessing this positive response from Generation DC respondents to increasing their contributions would be to develop a service whereby people could elect to have their contributions rounded up to the nearest £10 or £100, with the increment being invested into a fund with an explicit RI focus – for example an impact fund or sustainability fund.**

**“I trust RI will give me better returns for the future, plus it is also contributing to a greater cause”**



# 5

## Summary

**This research undertaken by Franklin Templeton and Adoreboard challenges some of the assumptions made about younger people and pensions.**

**The results show that financial benefits are of the utmost importance to them. However, people in this age group do have powerful views on the subject and would engage more with pension information and investment if it was shaped around their interests and values. There is a refreshingly high level of positivity towards pensions, but a misalignment does currently exist between how people feel about responsible investing, what they want from their pension and what their current experience is – which we have dubbed the emotional experience gap.**

**RI in its many forms is currently a major theme within the pension industry, with positive strides being made in the world of DC. This report demonstrates that the young people who will rely most on their DC savings in retirement feel very strongly about key issues that make up RI. Positive emotions such as trust and interest are shown by those that believe their pension reflects their values in this area.**



**The sooner pensions are seen to be reflecting members' values, the better, as this will help engagement with Generation DC and build trust in the system. With the future financial security of people critical, the benefits of incorporating values aligned to responsible investment are clear - more money saved towards more secure retirement futures.**



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