

# Eliciting Pension Beneficiaries' Sustainability Preferences: Why and How?

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# Drivers of Sustainable Investment Agenda?

- Legal and societal context **Hard and soft law**
- Peer pressure / benchmarking **"Market"**
- Size of the fund
- Board's preferences / beliefs **Fund-specific**
- Board composition
- Beneficiaries' preferences....

Should participants of pension plans be involved in setting a fund's sustainable investment agenda? If so, how can that be done in a meaningful way?

# How to implement Sustainable Investment Program (stylized)?



- **Exclusion or divestment policy** in most cases (but not all!) based on non-financial motives (note that boards tend to spend a lot of time on this)....
- **Integration of sustainability information** into the investment process with the objective to improve risk-adjusted returns... (but are markets already pricing the information?)
- Engagement in many different types of **active ownership strategies**, ranging from proxy voting to private engagement, class action lawsuits, Wall Street Walk, "just-vote-no campaigns etc." (how effective are these strategies, and can you afford the budget consequences..?).....

# Anglo-American Trust Law (US):

- **DOL (2015, US):** 'Environmental, social, and governance issues may have a direct relationship to the economic value of the plan's investment. In these instances, such issues are not merely collateral considerations or tie-breakers, but rather are proper components of the fiduciary's primary analysis of the economic merits of competing investment choices.'
- **DOL (2018, US):** 'Rather, ERISA fiduciaries must always put first the economic interests of the plan in providing retirement benefits.'
- **DOL (2020, US):** 'The amendments require plan fiduciaries to select investments and investment courses of action based solely on financial considerations relevant to the risk-adjusted economic value of a particular investment or investment course of action.'

# Meanwhile, in the EU and NL....

CONVENANT | December 2018

## SEER

### Convenant Internationaal Maatschappelijk Verantwoord Beleggen Pensioenfondsen

SOCIAAL-ECONOMISCHE RAAD

### Benchmark on Responsible Investment by Pension Funds in the Netherlands 2020

VBOO

## From boardroom governance to portfolio implementation: closing the gap

European Commission

## FINANCING SUSTAINABLE GROWTH

#SustainableFinanceEU European Commission Action Plan

### SUSTAINABLE FINANCE

- Major investments are needed to transform the EU economy to deliver on climate, environmental and social sustainability goals, including the Paris Agreement and the UN Sustainable Development Goals.
- Sustainable finance makes sustainability considerations part of financial decision-making. This means more low-carbon, energy- and resource-efficient circular projects.
- Integrating sustainability considerations will mitigate the impact of natural disasters as well as environmental and social sustainability issues that can affect the economy and financial markets.

**INVESTORS** → **CAPITAL** → **SUSTAINABLE INVESTMENTS** → **HEALTHY PLANET**

Greater consideration of investors' sustainability preferences → Sustainable Investments

Less economic harm caused by increased weather-related damage → Sustainable Investments

FRANS TIMMERMANS  
First Vice-President

*"Moving to a greener and more sustainable economy is good for job creation, good for people and good for the planet. Today we are making sure that the financial system works towards this goal. Our proposals will allow investors and individual citizens to make a positive choice so that their money is used more responsibly and supports sustainability."*

# Response Dutch Pension Funds

- Many funds use the survey instrument when asking beneficiaries about their preferences and beliefs regarding sustainable investments.
- Some funds have focus groups or ad hoc interviews with members.
- Some funds do not (directly) engage with their participants on the topic of responsible investments.
- Many potential pitfalls: social desirability bias (hypothetical gap), selection bias, representation bias etc.
- **Key objective: how to elicit participants' social preferences properly?**

# Case Study: Pensioenfonds Detailhandel (PD)

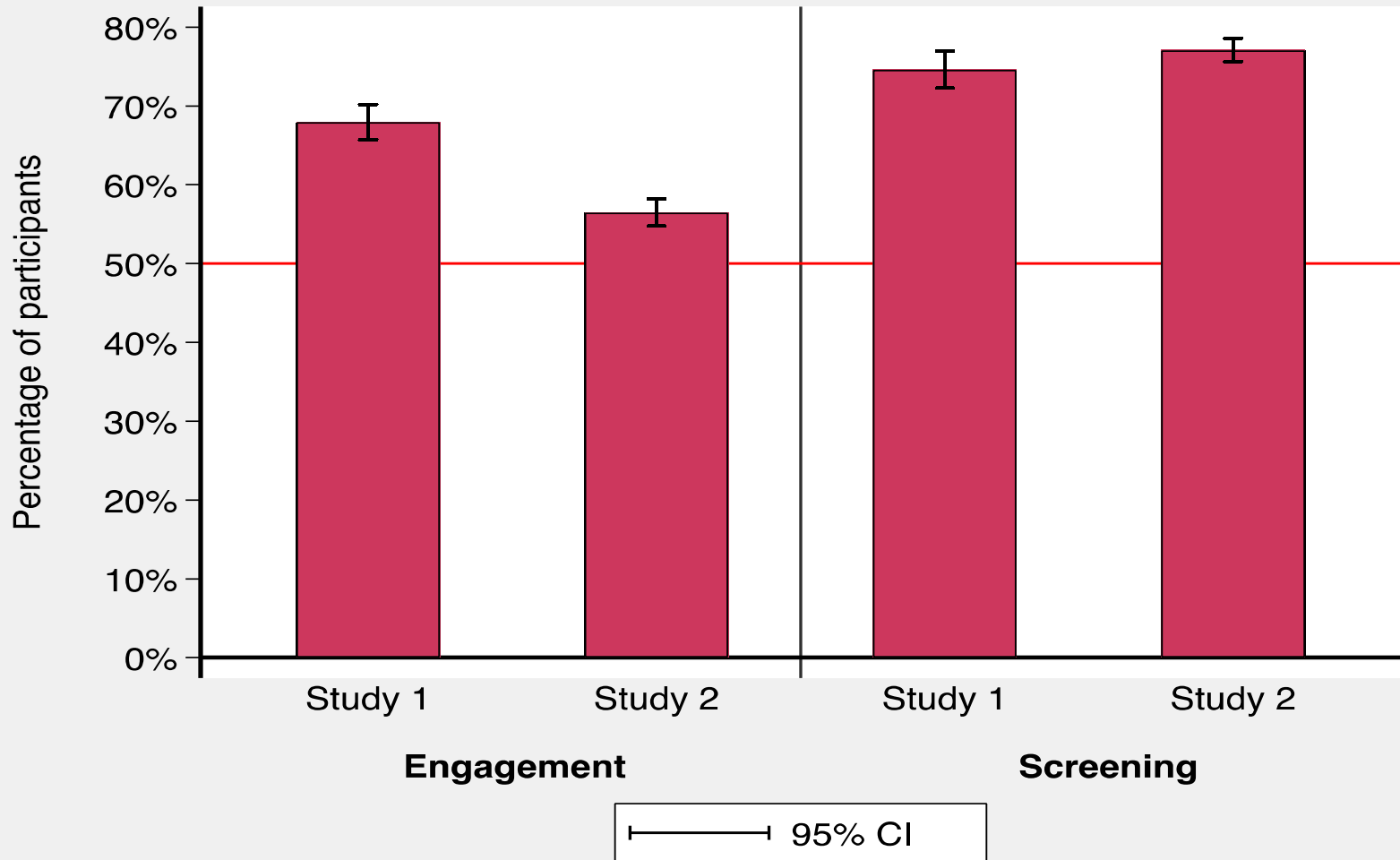
- Pension fund for the retail sector in the Netherlands: defined benefit plan, **35 billion US\$ AUM**, more than a million beneficiaries, run by a small team of delegation experts.
- Investment program guided by realism: focus on **high-quality governance** of the strategic investment delegation process with almost **exclusive focus on public and passive investments**.
- In 2018, the responsible investment program can be characterized by a **limited exclusion policy** (controversial weapons), **proxy voting** based on internal voting guidelines, and **private engagement** through an outsourced collaborative vehicle.
- **Investment belief** that the “integration of sustainability can be implemented without compromising key portfolio characteristics (risk and return)”.

# Guided by Beneficiaries' Preferences

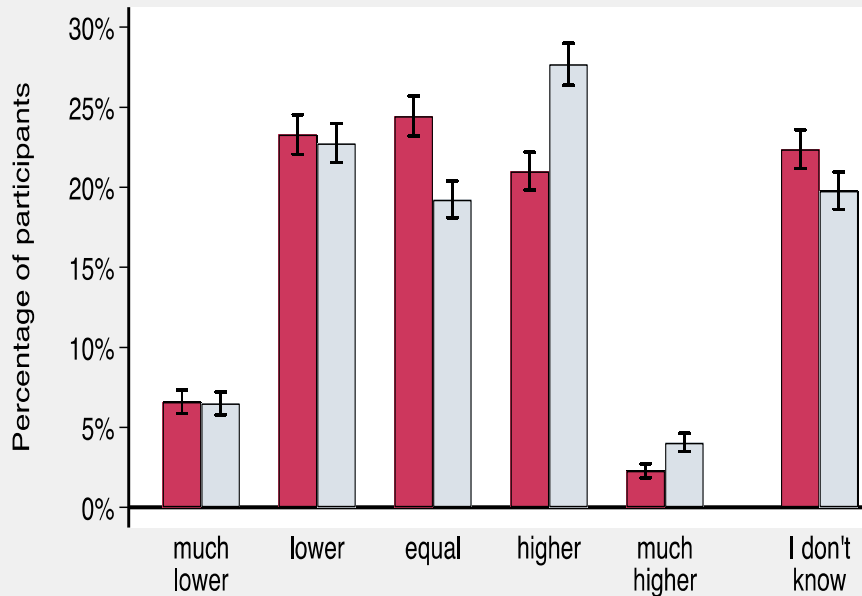
- PD approached Maastricht University Sustainable Finance Centre (ECCE) to conduct a **field survey** in 2018 (Study 1) among their participants. Second survey conducted in 2020 (Study 2).
- Inspired by upcoming hard and soft law, the board granted its participants **a real vote** on PD's sustainable-investment policy. Key question was whether the engagement program should be **intensified** (more engagements) and **extended** by topics related to a fourth, additional SDG.
- Close to **70% of participants** (10% against) are willing to expand and intensify the fund's engagement with companies based on selected SDGs, **even when they expect engagement to hurt the financial performance**. Study shows that participants' strong social preferences drive this result.
- Board of Trustees executed the vote within one week after the publication of research results (November 2018).
- Study 2, conducted in June 2020, shows that strong **preferences remain stable** and that **COVID** has a negligible impact.



# Engagement versus Screening, Study 1 and 2

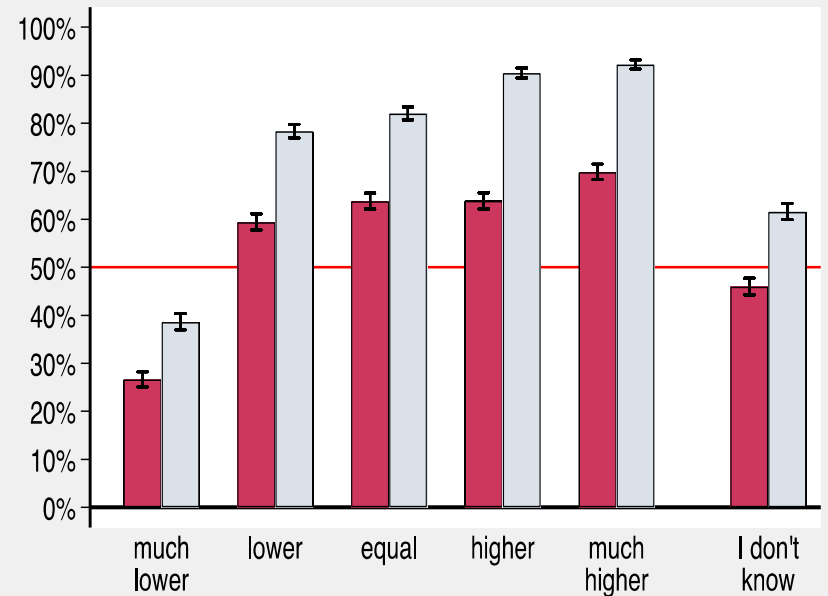
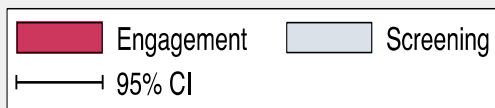


# Beliefs versus Preferences, Study 2



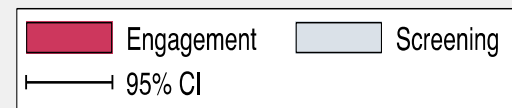
Through sustainable investing, retirement benefits will be...

**A. Distribution of financial beliefs**

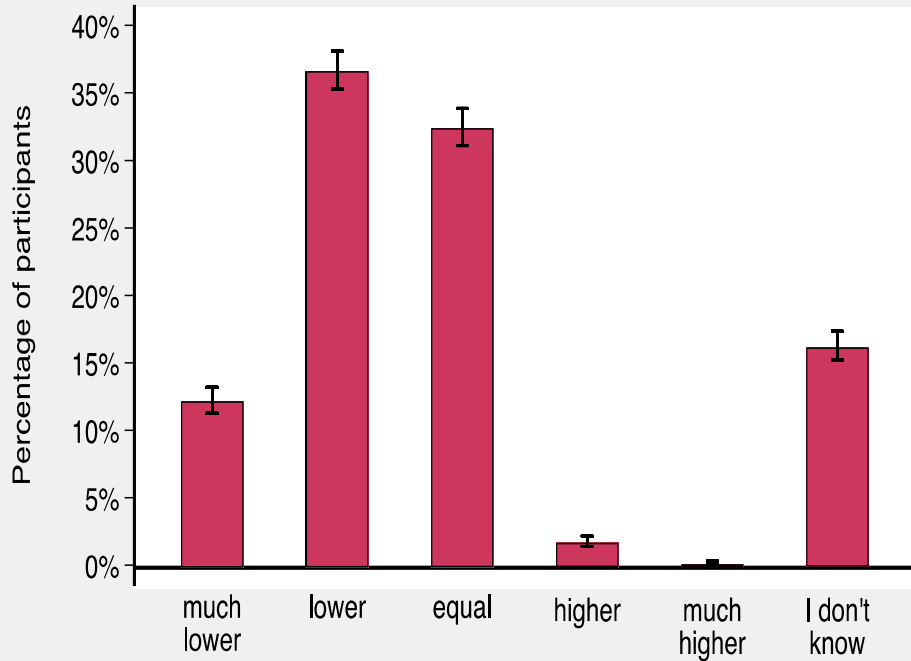


Through sustainable investing, retirement benefits will be...

**B. Percentage choosing sustainable investing per belief category**

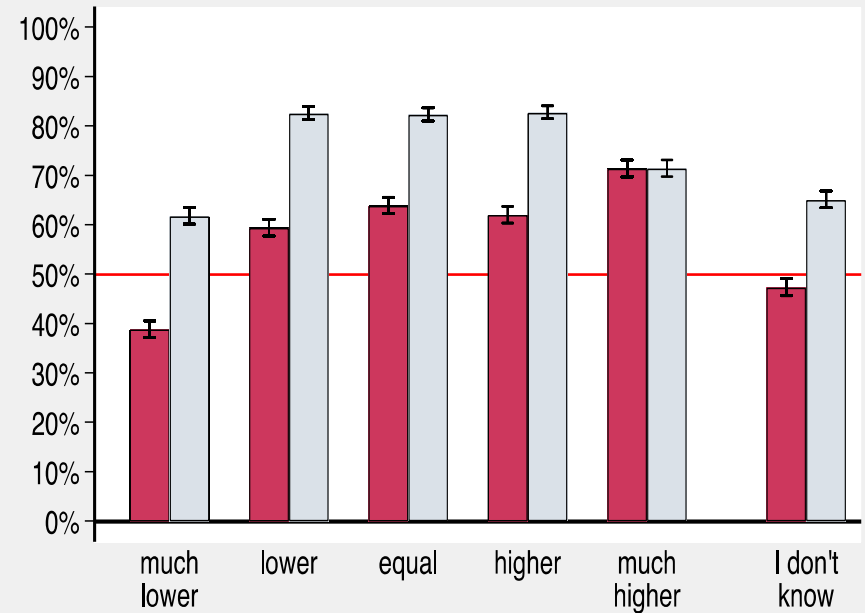
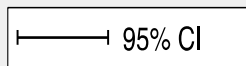


# Impact of COVID-19, Study 2



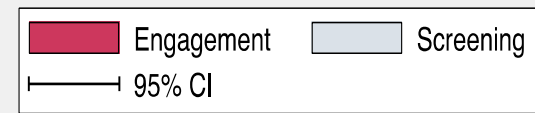
Through COVID-19, retirement benefits will be...

**A. Distribution of financial beliefs**



Through COVID-19, retirement benefits will be...

**B. Percentage choosing sustainable investing per belief category**



# Concluding Comments

- Social preferences have a significant influence on many economic decisions including pensions, as they are key to understanding what incentivizes people, also in the pension fund domain.
- Irrespective of a fund's legal context, knowledge of participants' preferences and beliefs about sustainable investments is valuable.
- Research shows that consumers of financial services who stronger identify with their service providers are more loyal.
- Particularly in a time when trust in the financial sector plummeted after the GFC and beyond, better understanding of beneficiaries' preferences and beliefs will help bring back confidence to the sector.
- **After all, trustworthiness is a pension fund's most valuable asset.**



**Questions or comments?**

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