Access all areas?

Private markets and the public: What do DC pension savers think?

With all the talk about unlocking private market investments for DC pension investors, you might think everyone would know about it by now. But in our latest research[1], we found that among pension savers, awareness of the link between pension funds and where they're invested remains as low as ever.

Yet, just as we found in our previous research in 2023[2], once DC pension savers know what we mean by private market investments, the majority are supportive, or in some instances, even keen.

This year we went further to find out not just what DC savers know about private markets but what sort of investments might inspire them to take more interest in their pension, and feel invested not just financially, but personally, in how their pension money could support issues they care about.

How we did it:

Online survey of 2,024 respondents in the UK, conducted in April 2024 by Ignition House for Legal & General, with fieldwork running from 17 April 2024 to 30 April 2024. All respondents were currently contributing to a DC pension. We asked questions on four areas of private market investments:

Affordable housing

Investing a proportion of pension fund money to help projects which could meet a shortage of these type of homes in the UK

Clean energy

Investing a proportion of pension fund money to invest in large-scale projects, such as solar and wind farms and other forms of sustainable energy, across Europe and the UK, as well as supporting projects that help provide infrastructure to enable the UK to move away from reliance on fossil fuels and make progress towards reaching its net-zero targets

Innovation companies

Using a proportion of pension fund money to invest in spin-out businesses from university science and technology departments that are involved in a range of innovative programmes including developing clean energy technologies, sustainable food production and advances in healthcare such as robotic surgery and vaccine development

Unlisted companies

Using a proportion of pension fund money to invest in private companies that are not yet traded on any stock exchange (which means they don't sell their shares to the public) but have the potential to create more jobs and boost economic growth in the UK

1. Online survey of 2,024 respondents in the UK, conducted in April 2024 by Ignition House for Legal & General, with fieldwork running from 17 April 2024 to 30 April 2024. All respondents were currently contributing to a DC pension.
2. Of 3,634 that we interviewed in the UK in June 2023, 72% said they'd would be prepared to pay higher pension fees to invest in 'illiquid' investments including infrastructure that supported renewable energy sources, solar parks and wind farms.

Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Headlines

70% 70% of respondents would feel more positive about their pension if its funds were being used to help support affordable housing schemes. Gen Z and Millennials would feel most positive at 74%. We believe this could be because they're the most likely generations to be trying to move from their childhood homes and/or trying to get on the housing ladder

59% Six in 10 (59%) think that investing in private market assets is a good thing as it increases the range of investments available for pension companies to invest their money into

81% 81% of Gen Z would be willing to pay more for a pension which was helping to drive forward technology and innovation in the UK compared with 51% of Baby Boomers

81% 81% of respondents who would be willing to pay more for a pension which was helping to drive forward technology and innovation, would be willing to pay more than £50 extra a year in fees to support it

42% 42% would be willing to sacrifice short-term returns for their pension money to be invested in private market assets. These could include wind farms and renewable energy, affordable housing, and developments which have the potential to boost jobs, growth, and the economy

83% 83% of Gen Z would pay more for a pension that was building affordable homes

71% 71% would feel more positive about their pension provider if they knew they were investing pension money into affordable housing

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60% 60% felt that pension companies investing in affordable housing would perform a lot better than those which did not

66% 66% would feel more positive about their pension if they knew it was investing in clean energy

70% 70% of Gen Z would be willing to pay more for a pension which was helping to fund the transition away from fossil fuels to clean, renewable energy compared with 49% of Baby Boomers

50% 50% of men would be willing to sacrifice short-term returns for their pension money to be invested in private market assets compared with only 32% of women

74% 74% of respondents over 50 agreed that investing in these types of assets seemed too risky for people who are close to retirement, even if it was only a small part of their pension pot

82% 82% were concerned that there could be more risk of investment loss with these type of assets compared with traditional investments

We define the generations as:

Baby Boomers: Born between 1946 and 1964

Generation X: Born between 1965 and 1980

Millennials: Born between 1981 and 1996

Generation Z: Born between 1997 and 2012

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Here are our findings:

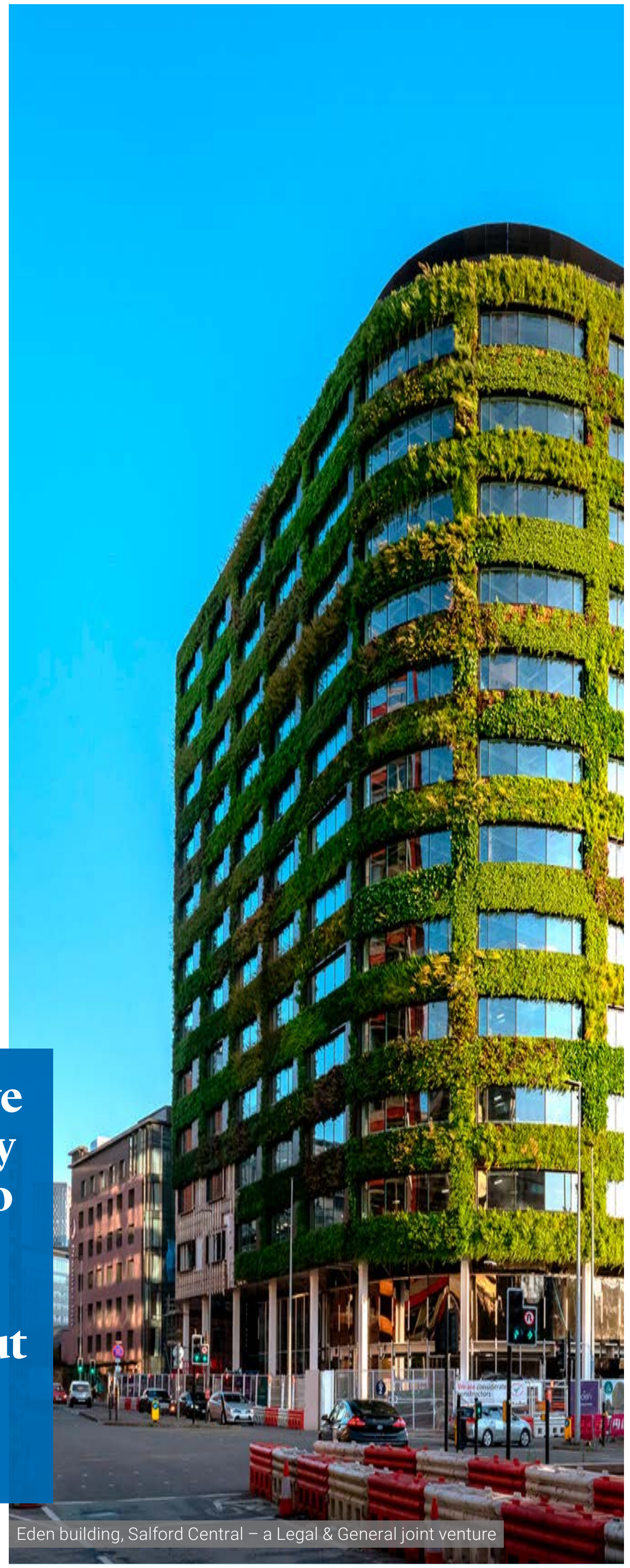
Awareness of pension fund investments remains low
In 2024, awareness of where and how pension funds are invested remains low.

We wanted to find out if those currently saving into a DC pension scheme knew that the contributions they made into their pension were invested in businesses on their behalf by their provider, meaning that their pension fund may own large parts of those businesses and that their provider may be able to use this financial stake to influence the way those businesses are run.

When we asked DC savers if they were aware that their pensions money could be used to change the way companies work and the society we live in, 58% said they were not.

What do DC savers know about private market investments and what do they like?
Once they understood that pension funds could be invested in companies involved in developing goods or services that could support wider societal needs – such as clean energy and affordable homes – they were broadly supportive with comments such as:

> **"I think it's quite positive. I've never really known where my money goes when I put it into the pension. I just trust that pension providers are doing what's in my best interest. But it's positive to know where it could be going."**


Eden building, Salford Central – a Legal & General joint venture

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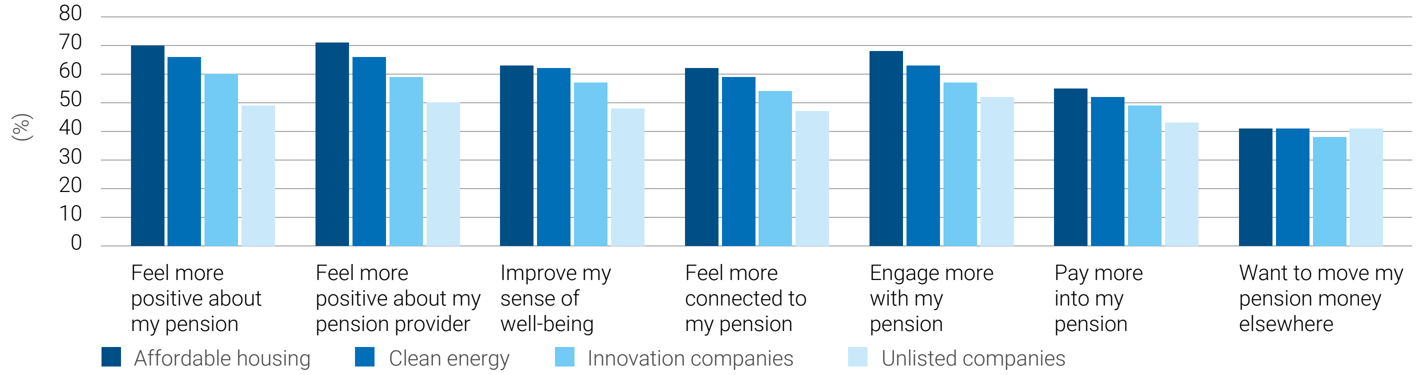
But there were clear favourites.

We asked DC pension savers the extent to which they agreed or disagreed with a series of statements to gauge their overall feelings about their pension being invested in four areas of private market assets: affordable housing, clean energy, innovation companies, and unlisted (private) companies.

Affordable housing was the most popular across every sentiment metric we tested:

Proportion of adults who agree with the following statements with regards to their pension being invested in affordable housing, clean energy, innovation companies, and unlisted (private) companies



Base: 2,024 UK adults currently contributing to a DC pension as at April 2024.

> **"I think it's quite a good idea because safe and affordable housing is something which each of us needs on a daily basis. So I think it's a good investment because you'll always get good returns. If not straight away, maybe within a longer time period. Whether you're rich or poor, you always need to have a safe place to live, so it'll always be demand for this."**

For 70% of our respondents, they'd feel more positive about their pension if its funds were being used to help support affordable housing schemes.

Investing in clean energy came a close second with 66% saying they'd feel more positive about their pension if it invested in this area, followed by 60% for investing in innovation and technology, and 49% for investing in private, unlisted companies.

What are DC savers' perceptions of financial performance?
Our respondents had mixed views on which types of private market assets might represent sound long-term investments for their pension savings.

Again, affordable housing was the most popular option with our respondents – 60% said they thought that companies investing in this area would perform better financially than those which did not. Just 8% thought they'd do worse.

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Over half of our respondents (58%) believed that investing in clean energy would also result in better financial performance with just 7% thinking these type of investments would perform worse.

On investing in affordable housing

"Affordable housing is so important, especially for young people trying to get on the ladder. You know, it's near enough impossible these days...and there also isn't enough of it."

On investing in clean energy

"Yeah, most definitely. I think this is a positive thing...that investment of my pension money will let me have a better lifestyle, but also my kids in terms of moving away from fossil fuels and things like that."

On investing in innovation companies (university spin-outs)

"Money needs to be invested in research, otherwise there will be no development. So that's a great thing to do. I would be more positive towards the money being used in research."

On investing in unlisted companies

"I think most companies lack investment and that's why it stops them from growing. I think having an outside investment, like from a pension, would just give them a kickstart to go to that next dimension. If it's used wisely, a lot of businesses will do very, very well and use (the investment) it to their advantage."

Slightly over half (51%) felt that investing in university spin-out companies working in innovation and technology (referred to in our research as innovation companies) would lead to better financial performance, while four in 10 felt it wouldn't make any difference.

For investments in unlisted companies, there appeared to be some doubt around the ability of these type of assets to perform as well as the other three private market categories we tested. A relatively modest 34% believed that pension providers investing in unlisted companies would do better than those which didn't, while almost half (46%) said they didn't think it would make any difference.

This unease around private, unlisted companies could possibly be explained by a perception that emerged during our interviews with groups of DC savers that these businesses are still 'learning the ropes' and could fail so that investing in them might be risky. Comments on investing in unlisted companies included:

"I would say that new businesses always are higher risk businesses. We have seen a lot of new businesses come into the market and they go quickly. So I personally feel it's not a good idea to pay our pension to the companies which are learning."

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"The nature of those types of companies is that some will never break even or never come to turn profit. So I do feel that maybe there is a higher risk involved in terms of that investment completely disappearing if the company, you know, went bankrupt."

A quarter of all DC pension savers were positive about all four private market investment areas tested. Most of the rest had mixed views but were more likely to be neutral than negative.

However, around 15% of savers did not like any of the suggestions and strongly agreed they would want to move their money elsewhere.

Would private market investments encourage savers to pay more into their pension?
In some circumstances, those we surveyed would be inspired to pay more into their pension schemes if they were invested in areas that savers cared about.

Investing in affordable homes evoked the strongest response with 55% of respondents saying they'd be prepared to pay more into their scheme if they thought it was being invested in this way.

For investing in clean energy, the figure dropped slightly to 52%, while 49% would consider increasing their pension contributions to support university spin-out companies involved in innovation and technology.

The least popular investment category was unlisted companies where 43% said they'd consider increasing their contributions to see their savings invested here. As stated earlier, the relative hesitancy over unlisted companies could be due to concerns reflected in our qualitative interviews that these are likely to be fledgling ventures without established business models and that they could, therefore, represent more financial risk.

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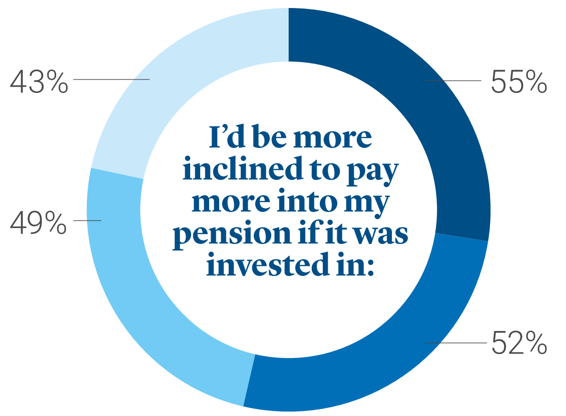

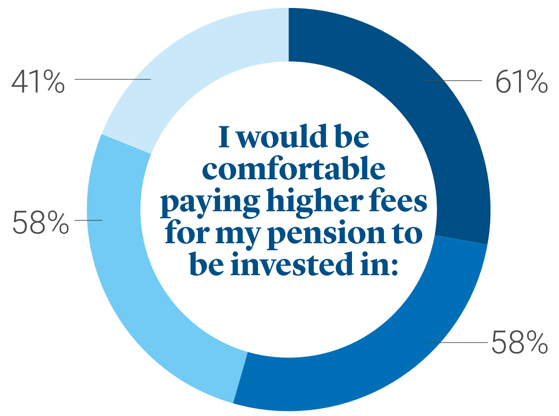

Affordable housing | Clean energy | Innovation companies | Unlisted companies

Base: 2,024 UK adults currently contributing to a DC pension as at April 2024.

Would private market investments encourage savers to pay higher fees for their pension?

It was a similar picture in terms of whether DC savers would be comfortable paying higher fees for their pension to be invested in these areas. Once again, affordable housing came out top with 61% prepared to pay higher fees.

For green energy, 58% of our respondents said they'd consider paying higher fees while for innovation companies, the figure was also 58% and for unlisted companies, 41%.

In terms of how much savers would be prepared to pay, the vast majority of those who said they'd pay more would consider an increase of over £50 a year, with 78% willing to pay more than £50 a year for affordable housing investments, 74% for clean energy, 81% for innovation companies and 73% for unlisted companies. Fewer would be prepared to pay more than £100 a year (36% would pay more than £100 a year for affordable housing assets, 36% would also be willing to pay more than £100 for clean energy, 38% for innovation companies and 33% for unlisted companies).

Are private markets a risky business for DC savers?

When we asked DC savers to consider private market investing from a financial risk perspective, while there were concerns (see below), most were cautiously supportive.

For instance, six in 10 (59%) thought that investing in private market assets was a good idea in terms of increasing the diversity of investments available to pension companies (which could help to spread financial risks across more portfolios). Only 8% disagreed.

Well over half (57%) thought the new investment opportunities offered by private markets was also a good thing. Only 9% disagreed.

But even if our respondents could see financial potential in private market investments, most were sceptical about whether their retirement savings should be used to promote wider economic growth. Half agreed with the statement: "It is not the role of pension companies to use my money to try to boost jobs, growth, and grow the economy," while only 21% disagreed.

Typical comments from our respondents included:

> **"I feel that (investing in affordable housing) should be the responsibility of the government and not be coming out of money that I am investing. So I don't really like that idea."**

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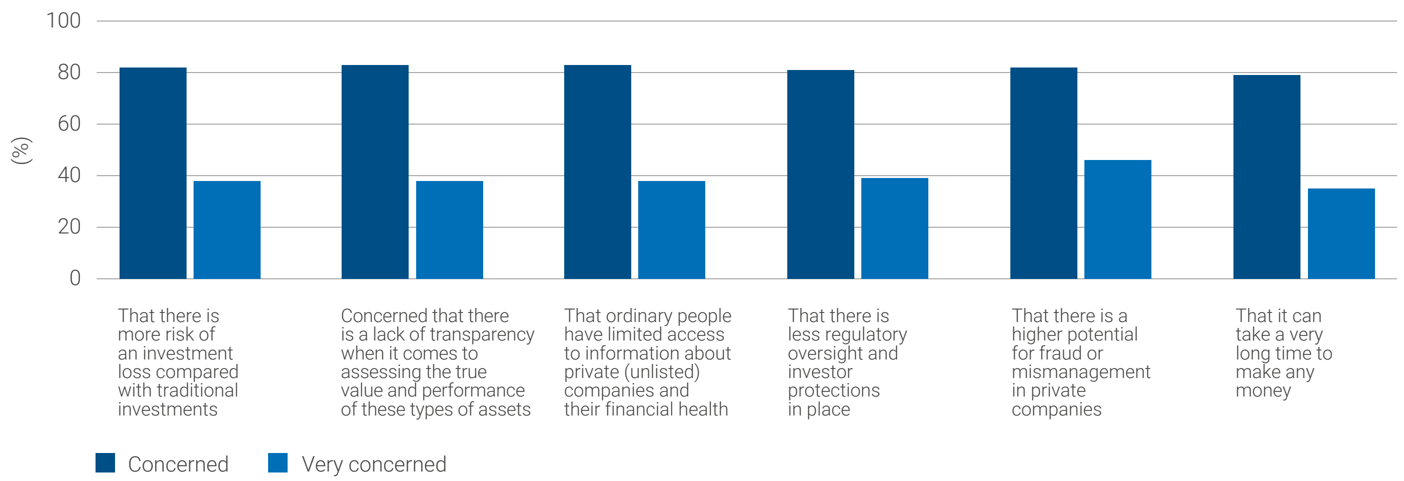
> **"I can't see monetary investment coming back to us (from investing in clean energy). It's just more about we we're investing in us for the good, which is good, but I think that should be more government-led than privately coming from our pensions as such, really."**

Rating the risks

We showed DC pension savers a list of risks associated with private market investments and asked them to think about how worried they'd be about each. Our respondents were concerned about all of them – with just 4% reporting that they had no concerns.

There could be some potential disadvantages to investing in the types of things we have been looking at. To what extent would you be concerned about the following:



Base: 2,024 UK adults currently contributing to a DC pension as at April 2024.

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When asked to rank their top three most concerning risks, fraud was first (48% ranked it as either their first, second or third concern), investment loss (43%), long time to make money (40%), lack of transparency (40%), less regulatory oversight (37%), and limited information (35%).

When it came to accepting certain financial trade-offs that could come with private market investments, our respondents were wary.

Just over four in 10 (42%) would be willing to sacrifice short-term returns for pension money to invest in private market assets (including wind farms and renewable energy, affordable housing, and redevelopment) which have the potential to boost jobs, growth, and the economy.

> **"I mean, I like the idea of it and that the money's going to a good cause, but at the end of the day, you know, you want the best return on your investment."**

Most DC savers are supportive of private market investing despite being made aware of risks

Despite being made aware of the risks, the concept of investing in private market assets still seemed to appeal to most of those we surveyed, as only a quarter of DC pension savers did *not* want their money invested in any of the areas we tested.

Three in 10 (30%) would need to know more to feel comfortable, while a quarter (24%) simply trust their pension provider to make the right decisions.

> **"I wouldn't say I feel negative towards it. I just don't think I knew enough about it. I just kind of let my pension provider to do all the work and they invest it in whatever they invest it in. I would definitely like to understand it more"**

One in five (21%) felt that pension money should be used to improve society, while 45% were happy to see a small part of their pension money being used to support economic growth.

Does age make a difference?

It's worth mentioning that while there were no startling differences between age groups on these responses, perhaps understandably, our research picked up a bit more caution from respondents who were closer to retirement.

So, while less than a quarter (23%) of those aged between 18 and 24 did not want their money invested in private market assets, only traditional stocks and shares, that figure was highest for those aged between 55 and 65 where 31% only wanted to invest in traditional assets.

The number who were very happy to see their money invested in assets that support projects to improve society were lowest in the 55 to 65 age group at 15% compared with those aged 18 to 24 at 24%, and those aged between 25 and 34 at 25%.

When asked specifically if they believed that these type of investments might be too risky for people close to retirement, 75% of those between 55 and 65 said they believed it was.

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However, only 36% in this age group strongly agreed so it's possible that many could be won over with access to more information around how asset managers, pension providers and trustees propose to apply appropriate levels of care in evaluating risks and providing prudent governance on an ongoing basis.

Conclusion: Making the arguments and building on trust

In July 2023, several leading UK pension providers, including Legal & General, signed up to the UK Conservative Government's Mansion House Compact, committing themselves to allocating 5% of assets in their default pension funds to unlisted equities (illiquids[3]) by 2030.[4]

Since then, in July 2024, the incoming Labour Government committed itself to a pensions review including plans to unlock investment from DC pension schemes to support the UK economy and help boost DC savers' pension pots.[5]

> **"I just love the idea of investing in us, in our planet but I still think it is a long-term thing because quite honestly I'm at an age where I just don't want anything to rock the boat. If I was 18, it'd be a different kettle of fish."**

So it seems that economists from different political perspectives want to see DC pension funds investing in private market assets.

But at the heart of the debate are the savers themselves. This is their financial future after all, and they deserve to be heard.

Our research shows that there's generally a positive response to investing in areas that savers' own experiences tell them are needed – such as more affordable housing, clean, sustainable energy sources and innovative businesses hoping to tackle a range of challenges that affect people's everyday lives.

3. Broadly speaking, illiquids are assets that can't quickly and easily be sold or exchanged for cash.
4. UK Government news story, 10 July 2023: www.gov.uk/government/news/chancellors-mansion-house-reforms-to-boost-typical-pension-by-over-1000-a-year.
5.Chancellor vows 'big bang on growth' to boost investment and savings Government press release, 20 July 2024. https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings.

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But there are also understandable concerns around the financial risks. (See section above *Are private markets a risky business for DC savers?*).

However, for those we interviewed, using pension funds to invest in private market themes that could help support wider society is generally accepted as a positive ambition which they support. (See section above *Most DC savers supportive of private market investing despite being made aware of risks*).

Our research showed that a substantial chunk (45%) of DC savers are happy to invest in private markets and trust their pension providers to make choices in their best interests.

We also found that more than half (55%) of DC savers aren't necessarily for or against the concept of using their pension money to support economic growth; they simply want to know more.

Therefore, to maintain and build on the trust that many have in their pension provider's judgment, and to put forward compelling arguments around balancing risks against potential rewards, the pensions industry must do more to provide clearer, simpler information that can be shared with savers more readily.

As the largest pension provider in the UK with over 5.3 million DC members,[6] Legal & General is continually reviewing its communications across all channels and mediums to provide high quality information materials and we're keen to keep embracing new technologies that could help support better engagement and greater awareness among our members. We also work, along with many of our industry colleagues, on forging links with educational institutions to address the ongoing need for financial education.

But we know that we and our colleagues across the pensions industry have much more to do.

Clearly, as well as the pensions industry, the government and all those who believe there are potential benefits in unlocking pension money to try to help boost the wider economy, also need to work on their messaging to offer savers the comfort that no one is playing fast and loose with their retirement savings.

This includes being clear about details such as the percentages of these type of investments to be included in DC pensions, and reassurance that while there are undeniable risks, there could also be potential benefits for DC savers' pension pots of portfolio *diversification, investing in high growth areas and the illiquidity premia.[7]

Most of all, we need to be clear with DC savers that those in charge of pension strategies will maintain due diligence in keeping those strategies under continual review.

At Legal & General, we believe that unlocking money in pension funds could help address real-world challenges and help promote wider economic growth as well as providing potential investment opportunities that may even grow individual retirement savings. But we need to make this case successfully to DC savers themselves and keep listening to their concerns.

Our research suggests that once savers understand the rationale for investing in private markets, most are on board with it. Keeping the lines of communication clear and open between providers like us and our DC members will be key to making sure that we're in step as we proceed, with ongoing caution, along this road.

6.Legal & General data as at August 2024. Legal & General press release and analyst pack for half-year results 2024.
7. This refers to the additional return received to compensate for tying up capital in an asset for longer periods which could be anything from one to five years or even 10 years or more in some cases. * It should be noted that diversification is no guarantee against a loss in a declining market.

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Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

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