SCOTTISH WIDOWS

Responsibly Invested Pensions Report

2025

Contents

Foreword

Saving into a responsibly invested pension can be one of the simplest ways for people to help build a better future, shaping the kind of world we live in by supporting people and planet, and aiming to provide more resilient pensions too.

Investing responsibly is about creating more resilient pension portfolios, that can manage the risks and help leverage the opportunities that environmental, social and governance (ESG) factors present. For example, by investing in companies that are well positioned for the transition to a low carbon economy working to reduce their impact on the environment and improving people's wellbeing, while excluding those that are causing severe harm to the planet or society. But it is also about creating a more sustainable world worth retiring into for our customers.

Our Responsibly Invested Pensions Report explores views on ESG issues and is an evolution of our 2023 Green Pensions report, which was mainly focused on environmental issues. By broadening out the scope of our research, we recognise the interconnected nature of environmental, social and governance (ESG) factors and a growing awareness of these issues. I am also excited to see clear demand for responsibly invested pensions from nearly three quarters of respondents.

At Scottish Widows, we are working hard to integrate responsible investing into our pensions offering to deliver good outcomes for customers. We have a Responsible Investing framework that sets out the principles for doing so, we are signatories to the UK Stewardship Code and we have recently partnered with sustainable investing leader Robeco to take our approach to the next level. This includes the co-creation of indices for our default pension offering that has ESG at its core.

Eva Cairns
Head of Responsible Investment

Executive Summary

We surveyed more than 6,000 employees, employers and financial advisers to better understand their perceptions and priorities when it comes to investing responsibly. We also reviewed their actions and any barriers to integrating those principles into pensions.

We can see from our report that pension savers are concerned about the world they will eventually retire into. They see climate change and social inequality as significant issues for society. Helping them to make the link between those issues and the opportunities that responsibly invested pensions can provide to address them, will be crucial if the pension industry is to meet customer needs, build more resilient pensions in the long term, and help to create a more sustainable future.

Pension savers showed the greatest concern for the ongoing cost-of-living, followed by environmental issues, such as climate change and water pollution.

The results showed some generational differences in attitudes to responsible investment. Younger workers, for example, are more concerned about social issues than older respondents. They also report greater concern about the environmental and social impact of their pension than older workers.

72% of respondents expect their employers to provide responsibly invested pension options.

47% of workers do not know whether their pension is invested responsibly.

82% of younger employees say their employers' social responsibility credentials or benefits were important in choosing their current role.

Executive Summary (continued)

We looked at how employers embed responsible investment considerations in their pensions, finding a fairly even split between allocation to specific sustainable funds and impact investing strategies, which were ranked the highest. Active ownership, such as engagement and voting, and tracking – of indices or carbon emissions – followed closely behind, while exclusions received the fewest responses.

We note a small increase this year in the number of employers offering a responsibly invested pension option to their employees although over half still don't make it their default choice. Smaller companies too are less likely to offer responsibly invested pension options.

The barriers to investing responsibly cited by employees included lack of information, concerns about whether returns are comparable to those of other funds, and potentially higher costs. There is clearly an opportunity for greater transparency and education about what responsible investment means.

Pension providers and government have an important role to play in bridging these gaps in education and understanding. By supporting employers and pension savers with guidance to better understand the benefits that responsibly invested pensions can provide, for example the potential for managing risk and delivering growth, and what choices are available, we can make a difference for our customers and shape a more sustainable world to retire into. Equally, workplace pensions can be well-positioned to engage and support employees who are keen to bring about change through their pension investments.

60% of employers report strong interest in sustainability within workplace pensions.

58% of respondents express an interest in their pensions being invested in private market investments.

45% of pension savers believe the most effective responsible investment approach for delivering long-term, sustainable returns is achieved through aligning investments to the UN Sustainable Development Goals.

What matters most to people?

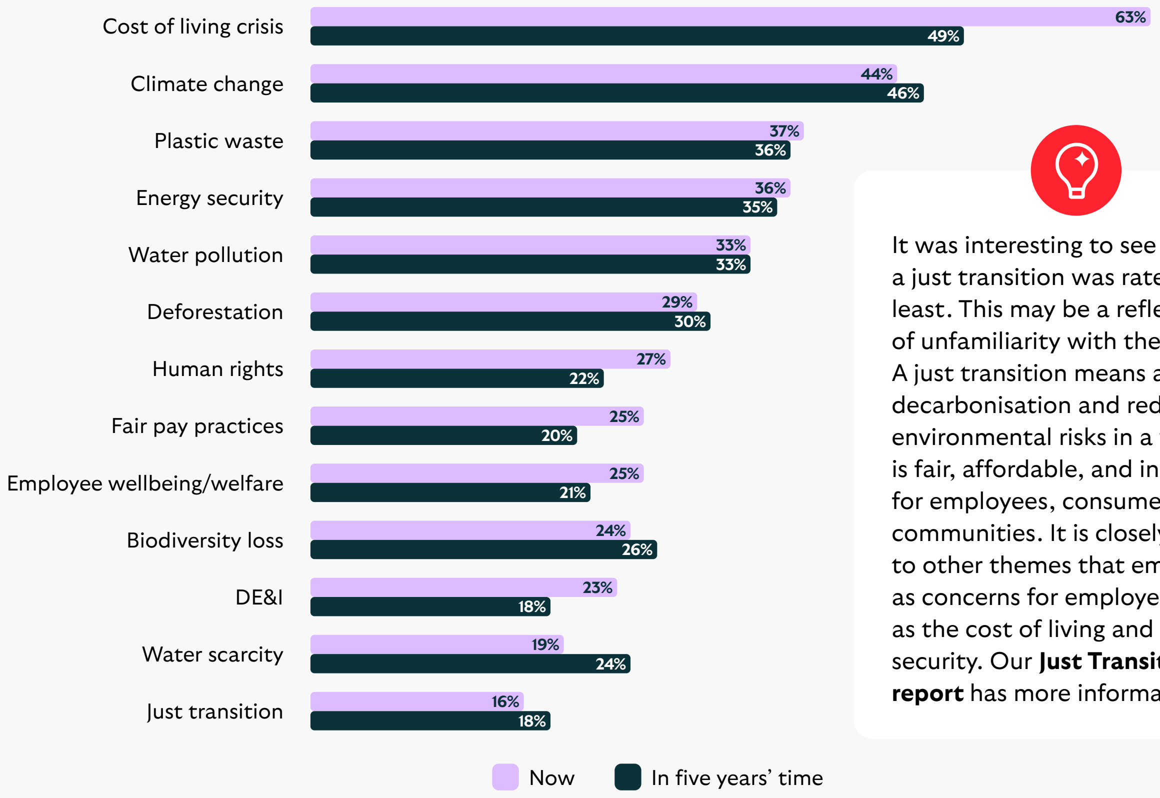
Our findings show significant concern about some of the most pressing issues of our time. Many of these are interconnected and can present both investment risks and opportunities, from the sweeping risks of climate change to more specific issues such as inequality, human rights, deforestation and energy security.

When asked about the biggest issues facing society now, employees highlight the cost of living, selected by 63% – a reflection of the higher inflation, higher interest rate environment of recent years. 49% also believe that this will be the biggest issue society faces five years from now. 44% cite climate change as the biggest issue now, rising slightly to 46% over the next five years.

Responses to our survey also show there is a growing awareness of other environmental challenges closely linked to climate change, such as biodiversity loss, deforestation, and water scarcity. In fact, water scarcity sees the greatest projected increase in the number of people highlighting it as an issue between now and five years from now, rising by five percentage points.

Figure 1. The biggest issues facing society according to workers (select all that apply)

Now vs. in five years



It was interesting to see that a just transition was rated the least. This may be a reflection of unfamiliarity with the term. A just transition means achieving decarbonisation and reduced environmental risks in a way that is fair, affordable, and inclusive for employees, consumers, and communities. It is closely linked to other themes that emerged as concerns for employees, such as the cost of living and energy security. Our **Just Transition report** has more information.

Demographics matter

Breaking the responses down by demographics such as age and gender, we can observe some interesting insights. The findings show that young people, those between 18 and 34 years old, see the cost of living as a less significant issue both now (57%) and in five years' time (45%) compared to those aged over 55 years (65% now and 51% in five years).

This may reflect the higher average incomes of young respondents, at £41,582 per year versus expectations of £33,790 for their older counterparts, as well as their future earnings potential.

Climate change is cited as an issue facing society today by 51% of those aged over 55, compared to 40% of young respondents. A comparison with similar questions from 2023 shows year-on-year consistency: in 2023, 42% of respondents aged 55+ said climate change was among the most critical issues facing society, higher than those aged 18–24 (37%).

The responses of young people, meanwhile, show heightened concern of social issues such as diversity, equity and inclusion: (29% of young respondents, vs 18% of those aged 55+), human rights (31% vs 21%), and fair pay (27% vs 24%).

Men and women hold similar views about the biggest issues facing society both today and in five years' time. The lone exception was the cost of living, cited by 68% of women (compared to 57% of men) as an issue facing society today, and 54% of women (compared to 44% of men) when considering the issues facing society in the next five years.

Figure 2. Climate change is one of society's biggest issues

Now vs. in five years – a comparison of age and gender

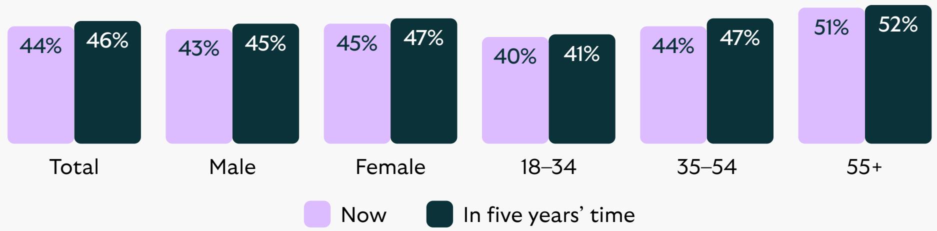
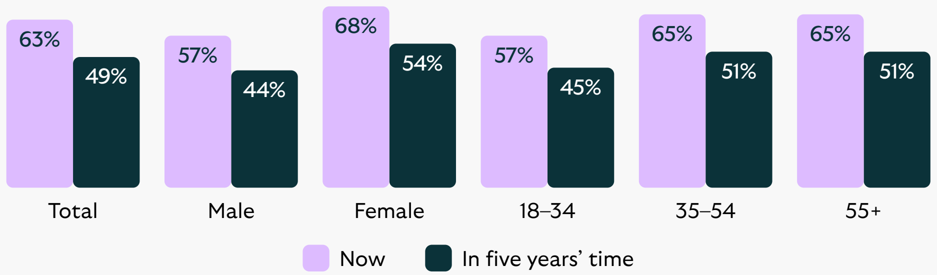


Figure 3. The cost of living is one of society's biggest issues

Now vs. in five years – a comparison of age and gender



Expectations of Employers

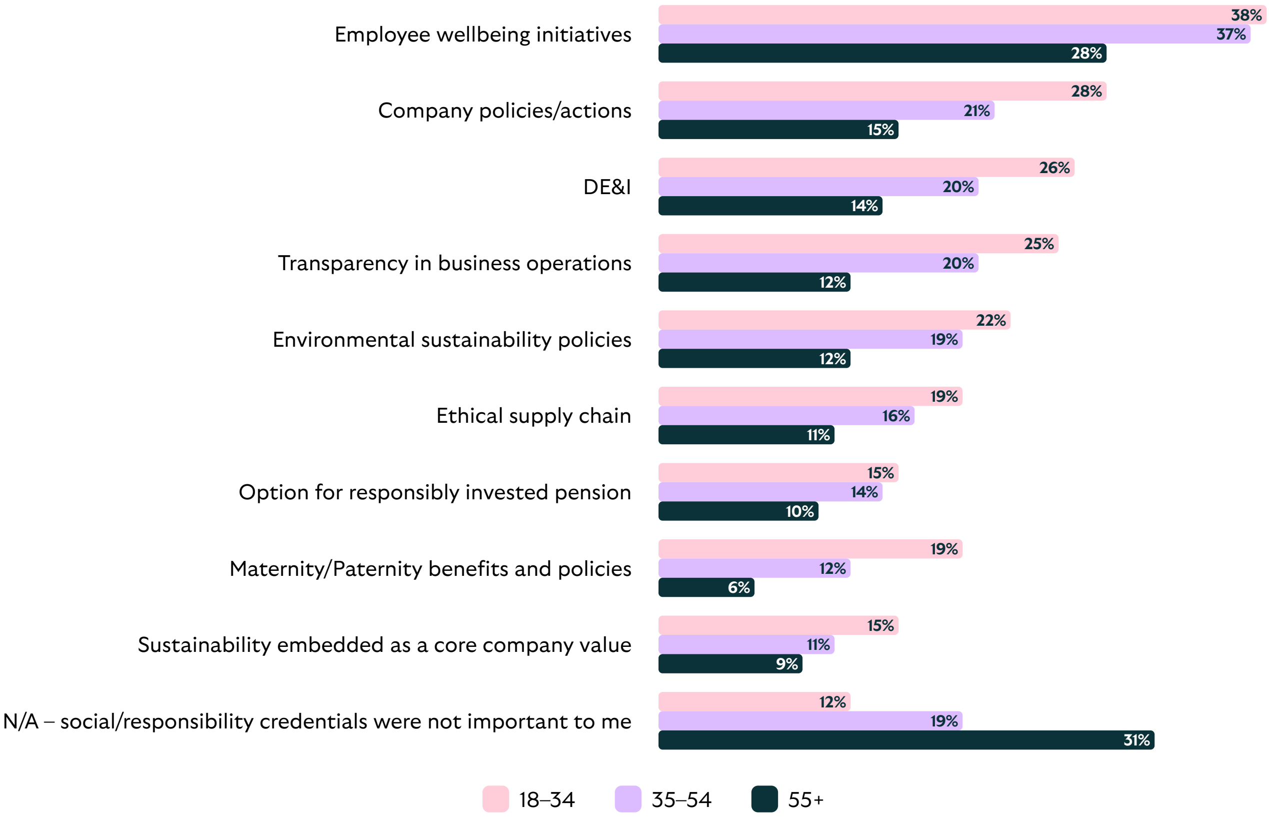
The vast majority (80%) of employees say their employers' social responsibility credentials or benefits were important in choosing their current role – consistent with 2023, when 81% cited this as a factor.

More specifically, employee wellbeing (36%), a positive societal impact (22%), and a commitment to diversity, equity and inclusion (20%) are the top priorities.

Young employees place even greater emphasis on their employers' actions, with 82% stating that at least one social responsibility credential influenced their decision to join their current employer, compared to just 50% of those aged 55 and above. Employees also have clear expectations of their employers when it comes to corporate sustainability commitments, see fig. 4 below.

Figure 4. Corporate sustainability commitments that employees expect from their employer (select all that apply)

Figure 5. Most important sustainability and social responsibility credentials when choosing an employer (select top three)



Attitudes to responsible investing

Given the importance placed on responsible business practices, it is unsurprising that employees also have views on how their pensions are invested.

72% of employees say it is important that their employer offers a responsibly invested pension.

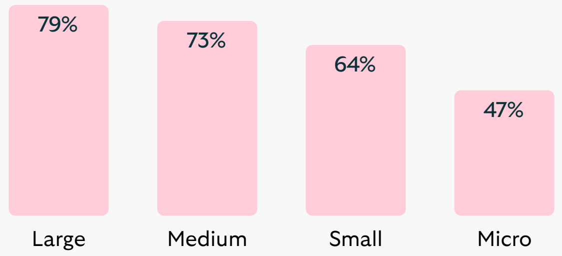
In exploring the attitudes of employees, we noted a significant 72% of employees say it is important that their employer offers a responsibly invested pension, with this figure higher among women (75% compared to 68% of men) and younger employees (79% compared to 61% of those over 55). Additionally, 64% of employees expect their employers' environmental and social responsibility commitments to be reflected in their pension portfolios. Employers, too, report strong interest in sustainability within workplace pensions, with 60% of employer respondents reporting an increase in the past year in employees seeking to understand how sustainability is embedded.

Are employers meeting this need?

According to our research, the size of a company can heavily influence the scope and scale of its responsible pension offering.

Figure 6. Percentage of Employers offering responsibly invested pensions

By business size**



Micro (1-9 employees), **Small (10-49 employees), **Medium** (50-249 employees), **Large** (250+ employees)

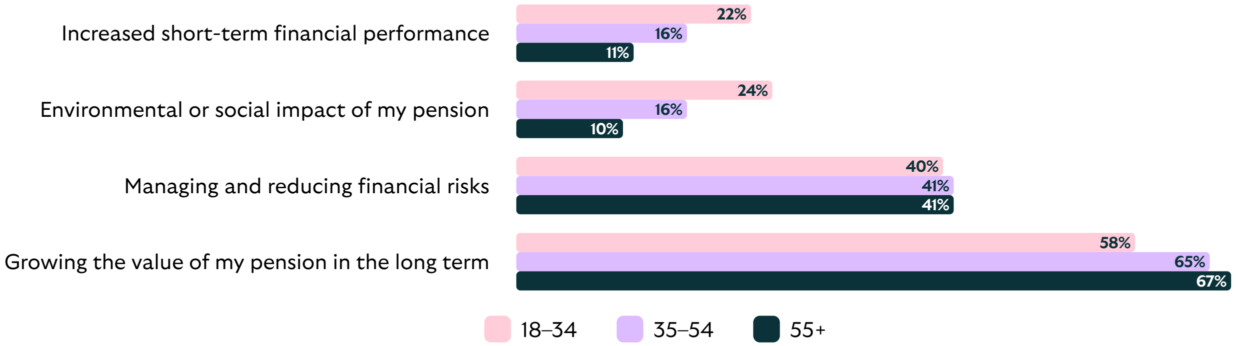
More than two-thirds (69%) of employers offer a responsibly invested pension option, with those based in London (77%) and the North-West (72%) leading the way.

Employee take up

Four-in-10 employee respondents (41%) believe their pensions are invested responsibly, an increase from the 29% who reported being in "green pension funds" in 2023. Uptake is particularly pronounced among younger people (54% of those aged 18–34 vs 25% of those 55+) and London residents (57% vs 38% of non-London respondents).

Figure 7. Employees' most important objectives when it comes to investing in a pension (select top two)

By age group



When asked to rate their top two primary objectives for pension investments, the majority of employees emphasise long-term value growth (63%) followed by financial risk management (41%).

Both these objectives can be enhanced by the integration of ESG considerations, which helps align investment strategies with the biggest issues facing society. Embedding ESG considerations into the management of investments can reduce downside risk and increase upside potential, strengthening a portfolio's risk outlook by pricing in the impacts of ESG risks across time horizons to achieve sustainable growth over the long term.

With pensions designed to ensure future financial security, it was no surprise that growing the value of pensions in the long term and managing and reducing financial risks were the top two priorities for pension savers. Interestingly, 17% of employees surveyed specifically cited environmental and social impact as a priority when ranked against a broader set of investment objectives. This demonstrates that some savers, especially the younger generation, are willing to go beyond using ESG considerations to contribute to overall financial resilience, but also want to invest with the intention of generating pre-defined positive environmental or social outcomes that are measurable (impact).

The role of financial advisers

Financial advisers are optimistic about their ability to guide clients on responsible pensions, with 80% feeling well-positioned to provide advice and 70% actively doing so. The latter is higher at firms with more than 10 advisers (84%).

However, only 11% of the advisers we surveyed report receiving client enquiries about responsibly invested pensions. This disconnect suggests that, while advisers feel equipped to provide information, they – as well as the broader financial ecosystem – should take a more proactive role in raising awareness.

Figure 8. Where there is interest in responsible pensions, advisers note several areas where their clients wish to see impact including: (select top three)

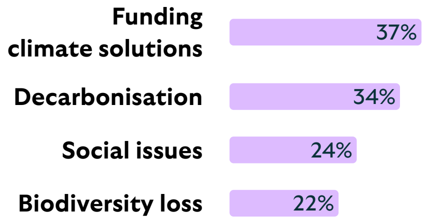
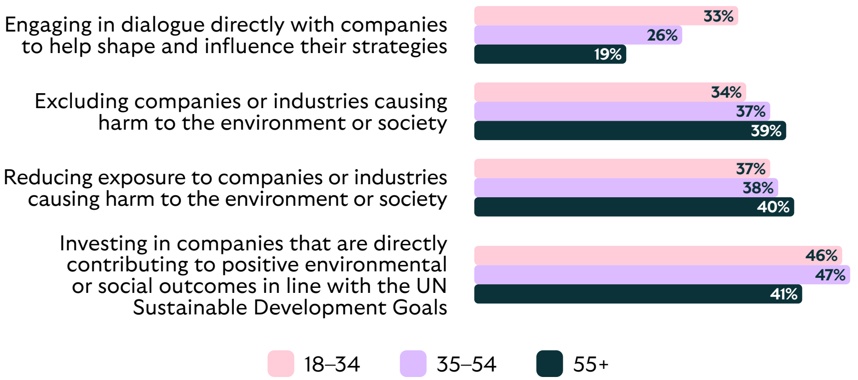


Figure 9. What employees think are the top two most effective responsible investment tools for delivering long-term sustainable returns (select top two)



The 17 United Nations Sustainable Development Goals (SDGs) are part of the 2030 Agenda for Sustainable Development which was adopted by all United Nations member countries in 2015. They span across social and environmental goals and set a blueprint for peace and prosperity for people and planet. For example, SDG 5 is about gender equality and SDG 13 relates to climate action. The SDGs can provide a useful framework for investors that helps link action to real world outcomes.

Interest in private markets

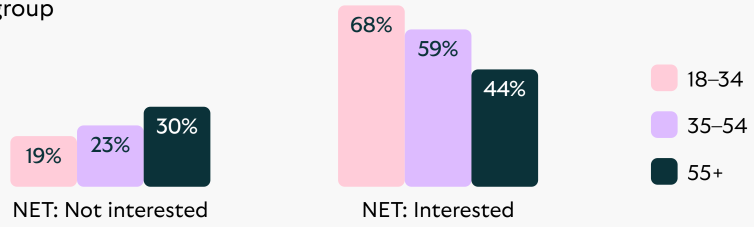
When considering investing in companies that are directly contributing to positive social and environmental outcomes – which scored the highest as an effective tool – we asked employees what they thought about investing in private companies not listed on the stock market.

Private markets can provide an important source of finance for projects geared towards sustainability solutions through investment or loans. There are various types, ranging from private equity and private debt through to private infrastructure and private real estate. Investing in this way typically helps finance a new company's or asset's growth and provides investors with the opportunity to influence at early stages. The transition to net zero offers a huge opportunity for private markets investors to create financial and societal value through things such as infrastructure projects and businesses delivering climate solutions, including renewable energy, low-carbon buildings, and energy-efficient technologies.

58% of respondents expressed curiosity about private market investments. This was even higher among men (63%), young employees (68%), new investors (73%), and those already engaged with responsibly invested pensions (82%).

Figure 10. Interest in investing in private markets

By age group

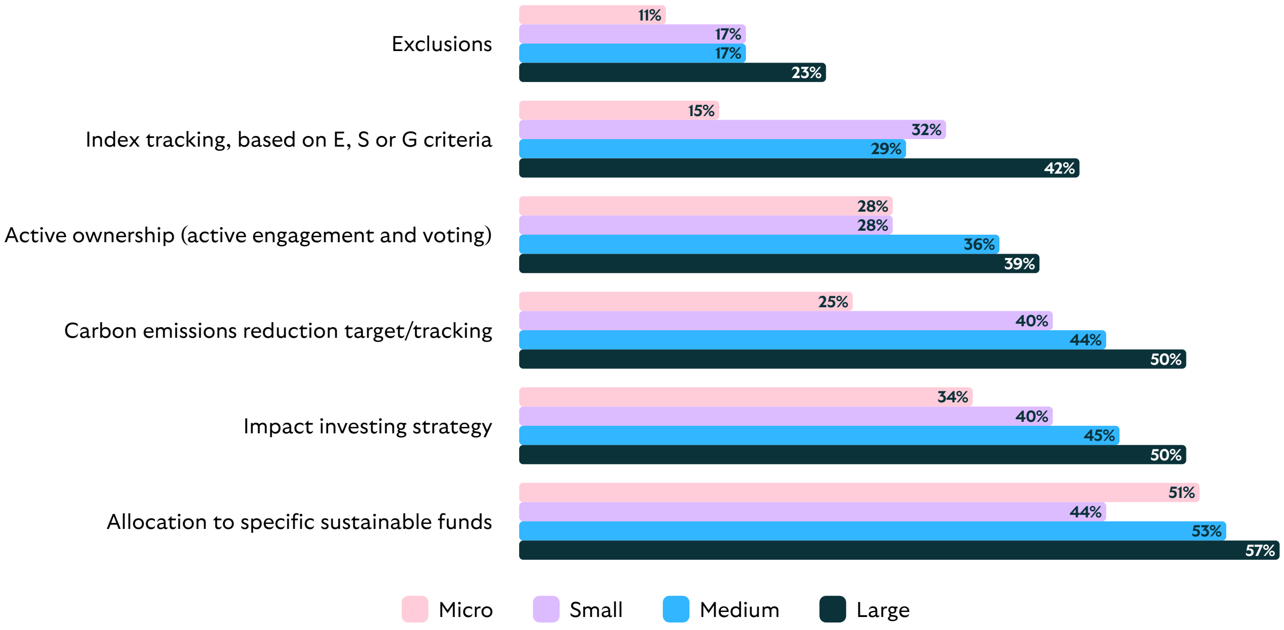


Among those employees who show interest in private markets, the key areas where they want to see impact in the UK are renewable energy projects (44%), healthcare innovations (35%), and environmental conservation projects (30%).

Workplace pensions

Figure 11. How employers embed responsible investment in their pensions (select all that apply)

By business size



The most common ways employers' pensions are invested responsibly are allocations to specific sustainable funds (53%), impact investing strategies (where investments are explicitly intended to have a positive social or environmental impact) (46%), and carbon emissions reduction targets or index tracking (45%). Employers show a preference for active engagement with investee companies and voting (36%), over exclusion policies (20%).

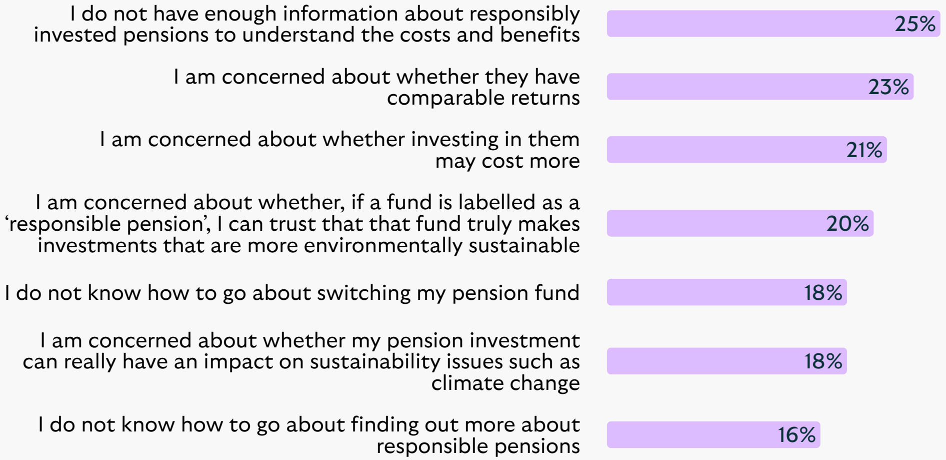
Default option

With many UK employees remaining in default options, there's a growing responsibility for employers and pension providers to ensure that default offerings align with employee demand for environmental and social responsibility. However, among employers that provide a workplace pension, more than half (54%) do not offer it as the default, requiring employees to make the active decision to invest responsibly. But 61% of employees we surveyed say they would not know how to switch to a responsible fund.

Barriers

Despite strong interest in responsible investment, barriers persist.

Figure 12. Biggest barriers to investing (more) in responsible pension funds



One-quarter (25%) of employee respondents cite a lack of information about the costs and benefits of responsible pensions. Encouragingly, less than a quarter of respondents highlighted concerns that investing responsibly may cost more (21%) or fail to offer comparable returns to traditional investing (23%).

Financial advisers, too, report concerns their clients have about responsible investment. Nearly half (47%) of financial advisers surveyed say their clients perceive responsible investments as delivering lower returns.

However, companies that take ESG factors seriously tend to be better at managing the risks and taking the opportunities that can come from environmental, social or governance issues. Better risk management can mean that they perform well as a business, reducing costs, growing revenues and improving profitability, which can potentially make them better investments. This can be through more efficiently managing waste, reducing reputational or regulatory risk, or protecting their assets from the effects of climate change.

Additionally, 38% of advisers surveyed said that their clients are unsure about whether their investments can truly have an impact, and 33% say their clients doubt the credibility of responsible investment claims.

While the industry has made strides to improve the transparency of sustainability claims, including the Financial Conduct Authority's latest anti-greenwashing guidance and the recently introduced Sustainability Disclosure Requirements, our research suggests that this needs to be better communicated to the end consumer, to help allay some of these concerns.

Mind the knowledge gap

Almost half (47%) of employees are unsure if their pension is managed with responsible investment considerations in mind, highlighting a critical information gap. Many of these savers may in fact be investing responsibly by way of their workplace pension, given that 44% of employers in our research say they offer a responsible pension as their default pension fund.

Investment knowledge also plays a significant role in shaping investment attitudes. Among those with some understanding of responsible investments, environmental or social impact is prioritised by 22%, compared to just 12% of those without this knowledge. Similarly, higher earners (23%) and those who identify as seasoned investors (19%) are more likely to see investments as opportunities to drive change. This highlights a link between financial knowledge, financial security and a willingness to invest in responsible strategies.

Our findings also show a clear link between knowledge and strong value drivers when it comes to responsible investment – 74% of knowledgeable respondents believe company values should align with pension portfolios, compared to just 55% of those without such knowledge.

The role of workplace guidance

Employers are often well-positioned to deliver education on pensions to the 80% of UK employees who have a workplace pension.

The vast majority (91%) of employers report providing guidance to employees on their responsible pension options – 81% overall feel equipped to do so effectively. However, this figure is lower at smaller companies (77%) and micro companies (60%). This suggests that while employers recognise their role in meeting the demand for responsible investment, they may not have the capacity, confidence, or ability to communicate in a way that meets their employees' needs. The fast-paced nature of ESG issues may exacerbate this, requiring employers to update their knowledge and communications regularly.

Recommendations

Educate

Our findings suggest that more can be done to educate people about responsibly invested pensions – what they encompass, how they work, and their potential to deliver resilient returns while making a difference to people and planet.

We also saw more general uncertainty about pensions. For example, a lack of understanding about where funds are invested and how to find out, and how to switch funds. This suggests that the pension industry and government need to work harder to support a more general understanding of how pensions work, supporting employers to communicate this to those in workplace schemes, financial advisers to clients, and more broadly to those non-advised pension savers. By doing this, the industry could capitalise on the growing awareness of ESG issues that we have seen, allowing people to harness their drive to make a difference when planning their financial futures.

Engage

Our research also highlights the importance of pension providers engaging with employers on an ongoing basis, to support them with up-to-date information that they can share with their employees. This would be particularly beneficial for smaller companies, which may lack the internal resources to deliver and prioritise this.

Engagement with financial advisers to better understand their clients' needs and concerns is also going to be important.

By maintaining strong relationships with financial advisers, pension providers can also support them with topical insights into the key trends and changes in responsible investments.

Enhance

With the government committed to undertaking a wide-ranging pension review, and keen to unlock investment potential and better pension outcomes through potentially broadening out investment strategies, it is encouraging to see curiosity about private market investments.

Making the most of that curiosity by providing more information and access to these potential opportunities, could underpin the development of new products and propositions to meet customer needs.

Similarly, aligning pension investments to the UN Sustainable Development Goals could enhance the pension offering and provide greater transparency on how pension investments link to real world outcomes.

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