

Greening Pensions: A Behavioural Perspective



UK pension pots collectively amount to over £2.6 trillion. While 68% of people say they would like their investments to be responsible and impactful, only £1 in £10 is currently used in this way. Below are seven ideas which use behavioural science approaches to achieve a greener pensions system, and help to avert the climate crisis. We start upstream to consider the pensions market itself, examining how we might apply behavioural science to ensure pension holders have a wide range of truly green pensions to choose between. We then move downstream to the individual level: how can we encourage individual pension holders to switch to greener options?



UPSTREAM: Shaping the pensions market: Improving the availability and integrity of green pensions

Support high-quality disclosure of environmental impacts by businesses

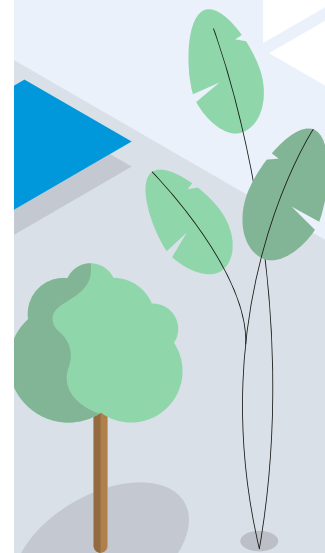
- 1. Highlight the short and medium-term disclosure benefits to business leaders.** Business leaders are often motivated by short-term, quarterly, and financial outcomes, rather than longer-term environmental wins. To make disclosure more attractive, business leaders should be presented with nearer-term incentives to pursue disclosure schemes. For example, individual business leaders could be given prizes or official accreditation for successfully implementing a disclosure system.

Impact: low; Feasibility: medium

Support pension fund managers to identify green businesses to invest in

- 2. Provide regular feedback on the environmental performance of pension pots, with the opportunity to switch to a greener option.** Difficulties understanding the environmental impact of different investment opportunities is a key barrier to greener investing. Professional investors should be given standardised, clear, and timely information about funds' environmental impact so that they can easily take it into account when making investment decisions.

Impact: medium; Feasibility: medium



DOWNSTREAM: Nudging individuals: Supporting pension holders to make greener choices

Change the choice architecture to support green pensions

- 3. Easy switching through the Pensions Dashboard.** The government is currently developing a 'Pensions Dashboard' where individuals can see the value and location of all of their pension pots. This should be augmented with (1) information about each pot's environmental impact; and (2) functionality to easily switch to more sustainable funds.

Impact: medium; Feasibility: medium

- 4. Force a periodic active choice.** Pension holders should be asked periodically to make an active choice about their pension fund selection. These choices should be presented during moments of change (e.g. at the point of receiving a pay rise, or when making a mortgage application).

Impact: high; Feasibility: medium

- 5. Make green pensions the default.** Workplace pension providers should be mandated to select a sustainable option as the default pension fund.

Impact: high; Feasibility: low

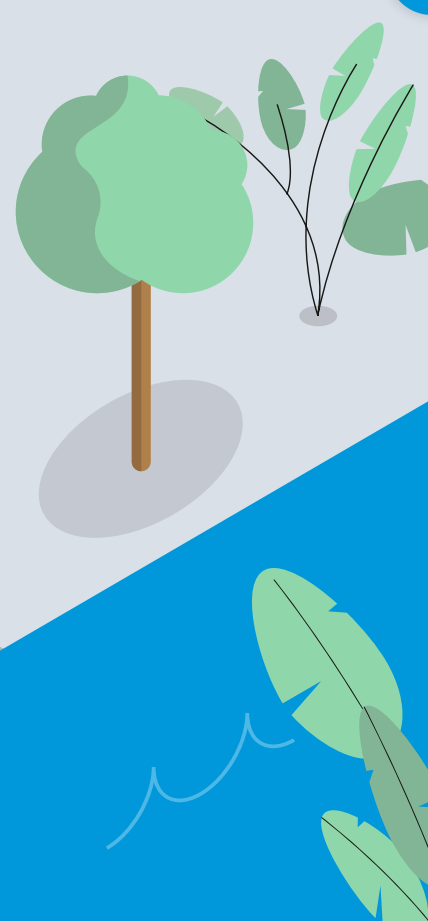
Provide pension holders with timely information about environmental impacts

- 6. Label pension funds to communicate environmental performance.** The environmental impact of individual pension funds should be presented to pension holders in a consistent and clear format. Research by BIT suggests that one-to-five star ratings would be most effective.

Impact: medium; Feasibility: high

- 7. Provide regular feedback on the environmental performance of pension pots.** Pension holders should be given regular updates on their pension's environmental impact, with prompts to switch to a greener fund if relevant. This information should be communicated at timely moments (e.g. during their annual benefits windows or when they receive their annual statement).

Impact: low; Feasibility: high



To read the full report, go to:

www.bi.team/publications/greening-pensions-a-behavioural-perspective