BUILDING A PORTFOLIO

3 Factors Shaping the Sustainable Retirement Investment Landscape

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According to a 2019 BlackRock survey, over 60% of workers who are saving for retirement in employer-sponsored plans value having investing options that promote the causes that matter to them. Up from less than 50% a year earlier, this growing demand echoes the wider increase in interest around sustainable investing, which has historically been out of reach for many retail investors.

Here is a look at three factors that have shaped the development of the sustainable retirement investment landscape.

1. Retirement Investing Norms

If social and environmental impact have been relatively slow to enter the retirement investing conversation, it may be due in part to the way retirement investments are managed.

According to one recent study by the Federal Reserve, 54% of American workers hold their retirement savings in defined-contribution plans like 401(k)s, while 33% use an individual retirement account (IRA) and 22% use a defined-benefit pension.

Under the Employee Retirement Income Security Act (ERISA) of 1974, managers of defined-contribution and -benefit plans, as well as certain types of IRAs, are bound by fiduciary duty "to run the plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses." As such, plan trustees can only introduce nonfinancial considerations like environmental, social, and governance (ESG) criteria when they are exclusively motivated by a good faith belief that those considerations will improve risk-adjusted returns.

The problem is that official consensus on that question remains unreached. Just last year, the US Department of Labor warned that ERISA fiduciaries "must not too readily

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increasingly view ESG factors as material to the financial performance of companies.

2. The Growth of Impact Investing

At the same time, despite its rise toward the "mainstream" of the investing world, impact investing has remained a niche subject, with access to impact investing products largely limited to accredited and institutional investors. "Cracking the code on the 401(k) market would put ESG-themed funds squarely in front of workplace employees," Tony Calandro, senior vice president of research firm Povaddo, told *GreenBiz*.

The industry's specialized status not only means that retail investors may be less likely to articulate a demand for sustainable retirement investing options, but it has also left the door open for debates and misconceptions about questions central to the identity of impact investing, such as whether there is substance beneath the marketing hype or if investing for impact means sacrificing returns.

> *In some ways, impact investing appears to be a natural fit for retirement investors, given that they're both built on long time horizons.*

Still, organizations like the Global Impact Investing Network (GIIN) are working to provide both the rigorous research that initiated investors' need to evolve the industry and simple, authoritative introductory materials for those just exploring. The GIIN's research has charted the growth of the impact investing market to $502 billion USD, while coverage of impact investing has found its way to everyday publications like *US News* and CNBC.

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tend to invest as many as 30 or 40 years into the future via target-date funds. Impact investors, meanwhile, are often focused on targets like the Sustainable Development Goals that could take decades (or longer) to achieve. Of course, where many impact investors favor active impact measurement and management practices and shareholder engagement tactics, retirement investors dabbling in sustainability may be more likely to take a passive approach.

3. Millennial Demand

Beyond the rise of ESG-related issues like gun control, opioid addiction, and climate change in public discourse, another factor explains the burgeoning demand for socially responsible retirement options: millennials.

Millennial interest in impact investing has been well documented, with TD Ameritrade research finding that 60% of millennials consider socially responsible investing important, compared to only 36% of baby boomers. When it comes to retirement, the trend holds steady—76% of millennial workers want retirement savings plans that support sustainability causes, according to the BlackRock survey. At the same time, millennials have grown into the largest generation in the American workforce and are poised to take over an even greater share of it over the next several years. This ascent could see more employers offering sustainable retirement plans as a recruiting and retention tool. Over one-third of employers surveyed by BlackRock offer sustainable retirement investment options—up from a quarter last year—and over 80% say they are likely to do so in the next one to two years. This move would be one way to add to wider efforts to raise corporate social responsibility profiles in recent years.

Companies interested in following suit with their own ethical investing plans have a growing number of resources to help

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retirement investments. That initiative set a goal of getting 1% ($10 billion USD) in total assets into ESG-themed funds by 2020.

Recent years' activity in the retirement space, particularly among pension investors who have started divesting from certain sectors, may help set an example. For instance, the California State Teachers' Retirement System divested from its private prison investments in late 2018. Other pension funds are opting against divestment and negative screens in favor of positive tilting to take a proactive approach to align their portfolios with ESG principles. Indeed, government pension funds in Japan, Norway, and the Netherlands have all committed to sustainable investing practices.

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