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Pension beneficiaries' and fund managers' perceptions of responsible investment: a focus group study

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Abstract

Purpose – *This study aims to explore the views of pension beneficiaries and fund managers regarding greater involvement and investment autonomy and the attitudes toward diverse responsible investment criteria. The conventional form of investing is usually vulnerable to high financial market volatility events and financial crises, and most importantly, it has proven insufficient in addressing important social issues. A newly introduced investment culture known as impact investing strives for social gains in the long term rather than the maximization of financial returns by aiming to tackle social problems. However, some in the field claim that implementing such investment policies compromises the fiduciary responsibility of pension funds' trustees to manage trust funds in the best interest of beneficiaries.*

Design/methodology/approach – *This study uses qualitative methods to explore the perception of proposed pension policies, such as beneficiaries' greater involvement in determining pension investment policies that can have a positive long-term impact on their lives and on the provision of investment autonomy. For this purpose, the study investigates beneficiaries' positions regarding responsible investment criteria from a freedom-of-choice perspective. The study sample consists of members and managers of a Dutch pension administrative organization with a cooperative structure. Three semi-structured, homogeneous discussions with focus groups containing between seven and nine participants each are conducted. The data are coded both deductively and inductively, following the framework approach, which is a qualitative data analysis method.*

Findings – *Participants demonstrate positive attitudes toward greater involvement and freedom of choice. However, the findings also indicate that members and pension fund managers have different views regarding responsible investment criteria. Members have more favorable attitudes toward responsible investment than do managers.*

Research limitations/implications – *This research is limited to focus group discussions with managers and members in the Dutch healthcare sector.*

Practical implications – *How little the current pension system matches people's investment preferences is a matter of concern, and the main implications of this research thus center upon designing a more democratic pension system for the future. Greater involvement by pension fund beneficiaries, whose roles are currently limited, would help legitimize responsible investing. This research implies that pension policies should be designed to align with the preferences of pension fund beneficiaries and be accompanied by diverse intervention strategies.*

Social implications – *Pension reforms that encourage pension beneficiaries to exert greater influence in determining pension policy will help shrink the democratic deficit in collective pensions.*

Originality/value – *This study contributes to the literature on pension fund governance and long-term responsible investing by examining the attitudes toward impact and sustainable investments and by making suggestions for future research. To the best of the authors' knowledge, this study is the first to investigate the attitudes of pension fund participants toward targeted impact investments.*

Keywords *Socially responsible investment, Cooperatives, Healthcare sector, Impact investment, Investment autonomy*

Paper type *Research paper*

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1. Introduction

In the aftermath of the global financial crisis, pension funds' coverage ratios deteriorated due to sharply lower long-term interest rates, which underlined the financial situations of these funds (Pino and Yermo, 2010). As a consequence, asset managers who act on behalf of pension fund boards are now required to maintain larger reserves. Therefore, these managers must choose between lowering payments to pensioners (and impacting the pension entitlements of active pension beneficiaries) or increasing pension premiums for younger employees who are building their future pension rights. These developments have piqued the public interest in pension matters and, in particular, in the institutional design of pension funds. To date, this increased attention has been limited to the direct debate on present and obvious interests: those who receive their pensions may say, "We have full rights to receive the pension payments as agreed because we were obliged all of those years of our working career to save and pay premiums. We had no choice." Younger cohorts now feel the threat of having to pay increased pension fees. They often take the following position: "Why should we pay for the luxury of all of those elderly people who do not contribute to national income anymore? A luxury we are not likely to ever enjoy ourselves?" This debate regarding the conflicting interests involved in pension funds also leads to more fundamental questions. In particular, it has been nearly universally assumed (until recently) that the conventional investment and asset management of pension capital would yield financial returns at least five times the normal interest rate on savings[1]; however, we should consider whether this assumption remains realistic for the future (Aglietta, 2000).

The increased uncertainty of the economic environment hinders predictable forecasts regarding financial returns. Nevertheless, we offer two remarks about the prospects for future returns. First, the economic reasoning behind the expectation of high yields appears to assume that capital remains scarce in the world economy. However, it is notable that market interest rates on capital remain at historically low levels, while expectations for high returns on investments remain as high as ever. Second, the political influence of emerging economies has increased substantially. The excess availability of non-priced scarce resources (water, soil fertility, the exploitation of child and female labor, animal welfare, etc.) has aroused global concern. The effect of this concern is that these scarce, non-priced resources have increasingly become priced. Of course, these explanations offer only two possible understandings of why high returns on investments are less common and why expectations for high returns in the future are even less likely to be fulfilled.

In light of these considerations, investment fund policy makers must decide how to design future pension funds. These decisions are informed by the social-cultural trend toward decreasing support for mandatory plans, which stems from the emancipation of the individual and the accompanying willingness of individuals to assume control over investment decisions rather than accepting forced collective investment arrangements. Goudswaard *et al.* (2004) demonstrate that individuals are more willing to pay the costs of collective provisions if there is transparency regarding how this money is being spent or, in the case studied here, how pension assets are invested. In essence, we question whether policy makers can continue to obligate people to pay pension fees with the expectation that they will be able to reap sufficient financial dividends in their old age. The natural follow-up to this question is whether this approach guarantees pensioners adequate security in the final phases of their lives and the certainty of sufficient financial resources when they are no longer contributing to the national economy.

To date, these questions have been left for pension fund boards and governments to address. In addition, limited attention has been given to individuals' views about freedom of choice and the criteria according to which long-term investments should be examined. This study aims to fill this research gap by exploring the views of pension participants regarding greater involvement and investment autonomy. Furthermore, in a scenario in which there is increased freedom of choice and higher transaction costs, we explore the attitudes toward diverse responsible investment criteria. We find a variety of terms regarding responsible investing in the literature, such as sustainable, green or ethical investing (see Woods and Urwin, 2010, for a literature review on responsible investment). In this study, we use the term “responsible investments” to denote investments that are characterized by sustainability and aim to achieve specific social goals in the long term.

This study aims to explore beneficiaries’ perceptions of pension policies regarding their increased involvement and influence in pension arrangements and to gain insight into members’ preferences in the decision-making process to determine the investment criteria under which their pension capital should be invested. At the same time, we examine the differences between members’ and managers’ perception, as agency theory highlights. For this purpose, we investigate beneficiaries’ positions regarding responsible investment from a freedom-of-choice perspective. In addition, we examine whether different beliefs and concerns among members and managers contribute to the formation of different attitudes toward alternate pension policies.

Our study contributes to the relevant literature on pension fund governance and responsible investing. Currently, the literature is limited to topics that examine individual risk/return preferences for different pension plans and their efficacy in making such choices (Van Rooij *et al.*, 2007). In this study, we analyze greater investment autonomy regarding comprehensive preferences about investments, which promise to deliver a greater social impact and address social issues regarding retirement.

The remainder of this paper is structured as follows. In Section 2, we give the theoretical background of the paper. In Section 3, we briefly review studies that address long-term investing policies. In Sections 4 and 5, we provide a brief description of the Dutch pension system, and we present our research setting, respectively. Sections 6 and 7 describe our method and findings, respectively. Sections 8 and 9 present our discussion and conclusion, respectively.

2. Theoretical background

An organization can be understood as a coalition of different groups with conflicting interests and with a particular level of uncertainty and bounded rationality in the decision-making process (Cyert and March, 1963; March and Simon, 1958). On one hand, agency theory underlines the conflicts of interest between principals and agents. In the case studied here, members may be considered the principals, and the employees of the cooperative are the agents of the principals (Jensen and Meckling, 1976; Fama, 1980). On the other hand, stakeholder theory stipulates that organizations should consider the interests of both internal (employees and members) and external stakeholders to increase the value added (Donaldson and Preston, 1995). Stakeholder theory is thus more similar to the notion of responsible investing and corporate social responsibility (CSR) (Roberts, 1992) and disputes the argument that corporations should focus exclusively on financial goals (Friedman, 2007) and that CSR practices misuse valuable corporate resources[2].

The choices presented in these discussions have both direct and indirect effects on pension beneficiaries and are focused on social value added in the long run. Porter and Kramer (2011) coined the term “shared value” creation, i.e. striving for and optimizing the balance between different types of value rather than merely looking at financial returns. Florin and Schmidt (2011) argue that business models that balance social and private value creation should have a clear mission, agreed-upon objectives and a goal of creating social value.

On the stakeholder theory side, one topic that is of increased importance for stakeholders is investing according to ethically and socially responsible criteria. Responsible investing has established an alternative infrastructure that systematically considers nonfinancial issues (Hiss, 2013). Social innovation is a process that targets solutions to social problems that involve multiple actors, including social entrepreneurs, investors and individuals; this process involves co-creation, and the participation of all stakeholders is important to recognize social problems and to identify investment opportunities for value creation

(Bhattacharya, 2013; Grieshuber, 2013). Grieshuber (2013) argues that participation gives stakeholders the opportunity to become involved in conversations about topics that are relevant to them. Finally, social innovation is based on the voices of society, the community, people and stakeholders, i.e. we need to listen to the people (Walker and Beranek, 2013). Stakeholders in an organization with a cooperative structure have, in principle, greater influence and impact on strategic decisions and can facilitate social performance through social innovation. Novkovic (2008) stresses the important role of cooperative organizations in promoting social innovation, social entrepreneurship and responsible practices because they perceive social value creation to be an inherent goal of cooperative principles. Pursuing the goal of societal value creation is part of the cooperative principle: cooperatives internalize the value added by adopting socially responsible investment (SRI) and beliefs, which remain at the heart of the cooperative concept (Novkovic, 2008).

Furthermore, institutional investors, including pension funds, frequently operate as activist investors and are actively involved in voting processes as part of their environmental, social and governance (ESG) policies. Daily *et al.* (2003) argue that shareholder activism is designed to encourage executives and directors to adopt practices that insulate shareholders from managerial self-interest by providing incentives for executives to manage firms in shareholders' long-term interests. Nevertheless, Romano (1993) criticizes political influences on the corporate governance of pension funds and argues that activist agendas followed by pension funds do not achieve significant benefits for their shareholders (Romano, 2001).

3. Responsible investing

The most recent global financial crisis has stimulated social finance research on investments that balance financial returns and social gains in the long term. The notion that maximizing only financial returns is a primary and sufficient objective has been replaced by a new way of investing that not only supports SRI practices but also proactively promotes impact investments, which are combined under the term social finance[3]. We define social finance as the flow of capital on investments that prioritize the solution of societal problems in a sustainable way. Cooperation among government, business and civil society is crucial for identifying and funding investments that aim to deliver a positive impact on society.

3.1 Socially responsible investment

Public funds managers have increasingly begun to examine their investments through the lens of sustainability and social responsibility. After Royal Dutch Shell introduced its so-called people, planet and profit standards, these criteria have become more or less common practice. Thus, companies and investment funds annually examine and report their sustainability activities. For instance, most fund managers refuse to invest in companies that manufacture tobacco products, those that operate in certain branches of the weapons industries, those that produce low-priced products made with child labor and those that manufacture products made with wood, fish and farm products that are not produced sustainably (Kasemir *et al.*, 2001; Sievänen *et al.*, 2013). Pension funds have integrated SRI principles into their investment philosophies and consider them important aspects of their fiduciary duties (Koedijk and Slager, 2011). Additionally, investing based on SRI criteria is closely related to the core values and principles of the cooperative movement.

The debate continues to rage about whether pension trustees should be involved in responsible investment practices or whether such investment practices sidetrack such trustees from their fiduciary responsibility to maximize shareholder value in a strict financial sense. Scholars argue that the dual pursuit of financial and social goals does not offset the importance of one over the other, and they seek to balance financial and social goals in the long run. Sethi (2005) argues that pension fund investment strategies should disengage from catastrophic short-term goals such as maximizing financial returns and should instead direct themselves toward long-term socially responsible goals. Martin (2009) argues that the fiduciary duties of pension fund trustees are not endangered by following SRI practices.

Pension funds can use their discretionary power for corporate engagement and for influencing decision-making (Clark and Hebb, 2004). Additionally, the impact of pension fund activism is associated with monitoring and promoting change in targeted firms (Karpoff *et al.*, 1996). Some pension funds have focused on SRI by incorporating SRI and ESG factors into their investment process and by trying to integrate them into mainstream investment analysis (Jacob *et al.*, 2005; World Economic Forum, 2013). Recent examples highlight the commitment of these pension funds to implementing SRI policies and enforcing their role as institutional investors[4]. Pension funds pursue shareholder activism and a more active role in corporate governance to strengthen their responsibility as institutional investors (Guercio and Hawkins, 1999; Prevost and Rao, 2000). Davis (2002) finds that pension funds have a greater effect on corporate activism. Moreover, investors can aim to increase the impact of their socially responsible policies by engaging in targeted investments and more active ownership (Croft, 2012; Van der Velden and Van Buul, 2012). The policy of targeting ESG projects has gained momentum and has attracted the attention of the investment community[5]. For instance, even as markets lost approximately 20 to 30 per cent of their worth during the peak of the 2008 financial crisis, some evidence reveals that responsible investments yielded returns from 4 to 6 per cent during the same period (Emerson, 2009).

3.2 Impact investment

In recent years, sustainable long-term investing has also been undertaken by a new class of investors called "social venturing investors/entrepreneurs", who essentially represent an entirely "new asset class" (Kievit *et al.*, 2008). These investors have introduced a financial management innovation, which we may call social venture investing or social impact investing, in which financial returns are no longer the primary goal of investment but represent a necessary condition for realizing certain societal goals. Such managers are thus faced with either regarding investments as maximizing financial returns on investments or as realizing other defined goals for the future. (Meyskens *et al.*, 2010; Miller and Wesley, 2010; O'Donohoe *et al.*, 2010). Social impact investing not only excludes non-sustainable investment opportunities but also aims for positive long-term goals. This new culture of impact investing has gained momentum and aims to incorporate mainstream investors, such as pension funds, into the mix (World Economic Forum, 2013).

Until recently, these discussions were the prerogative of asset managers and high-net-worth individuals. The economic turmoil that currently concerns all of Europe has made it clear that politicians and, therefore, civil society – that is, ordinary people – must provide solutions for the partial breakdown of the financial system. Therefore, we should not be surprised that the people who must pay pension fees would like to determine the direction in which their pension capital should be invested. Pension beneficiaries are increasingly interested in knowing and understanding where their premiums and assets are being invested and whether their pension fund's current investment practices contribute to society and to the economy. However, to date, beneficiaries have remained largely absent from decisions that affect pension policy design. The criteria for designing pension policies typically focus on guaranteeing sufficient income during retirement and ignore other issues related to individuals' well-being.

4. A focus group study in a Dutch cooperative organization

The occupational pension pillar constitutes one of the three important pillars of the Dutch old age pension system[6]. In The Netherlands, most employees are required to save in the occupational pension (Van Els *et al.*, 2007). Pension providers are either company-specific, industry-wide pension funds or large insurance providers. The boards of trustees design pension policies based on their fiduciary duties, i.e. by maximizing shareholder value.

The Dutch pension system is characterized by limited individual involvement. Individuals' influence on pension fund investment policies in The Netherlands is historically negligible. Pension funds have the legal status of foundations, which do not have provisions for formal ownership. Thus, there can be some indirect influence of fee-paying contributors via political regulation. This influence, however, is sufficiently indirect such that we may say that pension funds are based on the concept of being "publicly owned" but not "publicly controlled". They are fully independent. Foundations have boards and supervisors, and the members of these boards are elected by the boards themselves. This situation results in a board culture that is not accountable for the policies that are applied. Boards comply with legal limitations and specific by-laws; however, apart from these minimal requirements, they are not accountable to those who have paid and/or are still paying the fees. Moreover, many pension funds apply the same interpretation of legislation and regulation and choose to use the same class of specialized consultants.

There is special governance for pension funds in the care and well-being sector (PFZW). This pension fund (the second largest in The Netherlands, with total assets amounting to more than €150 billion) has made a service-level agreement with PGGM. PGGM manages the total assets on behalf of the pension fund, but it has the legal status of a cooperative. In other words, PGGM is a "member-owned", "member-controlled" and "member-benefit" organization. PFZW determines pension capital asset policies, but the people who pay fees into the fund are given a voice via the PGGM cooperative. The institutional form of this voice currently means that the cooperative has more than 650,000 members, who elect a member council of 45 members that in turn elects the 12 members of the board.

For the care and well-being sector, the new asset class of investments refers to investments that have more direct impact and meaning, such as improving working circumstances and/or living conditions, supporting healthcare sector organizations and improving access to healthcare services, healthy aging[7] and medical innovation. These targeted investments aim to improve not only human well-being but also a pension's system sustainability, for instance, by keeping track of or even reducing the expected healthcare costs, as a population is aging fast (ILO, 2009; Rechel *et al.*, 2009).

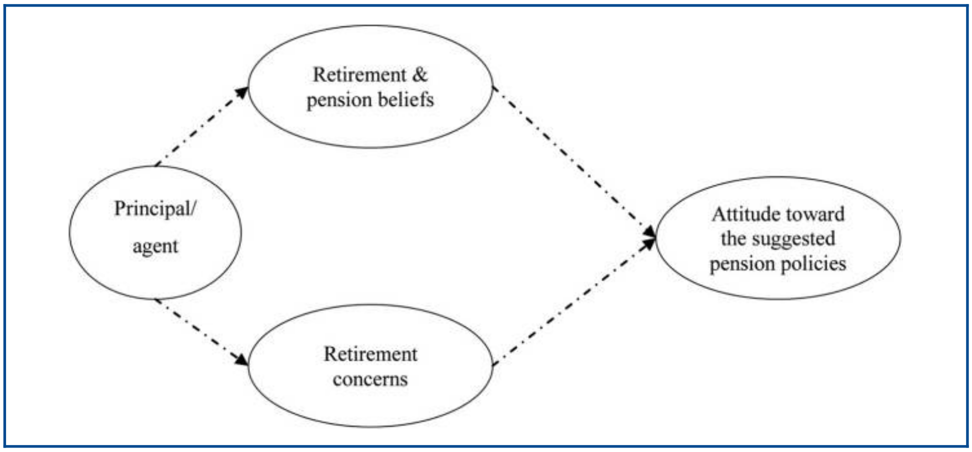
Thus, the questions to be answered include the following:

- *Q1.* Are members willing to contribute to the debate regarding investments that can affect their own futures?
- *Q2.* Are they willing to become involved in the selection of such investment criteria and have more freedom of choice?
- *Q3.* What are the preferences of those individuals who will depend on care and those who will have to provide that care, and what will the future hold for the present working population in this sector when they reach pension age?

5. Research framework

Behavioral beliefs formulate a person's attitude toward a particular public issue. As such, the underlying beliefs about retirement influence the formation of a positive attitude toward new pension policies, i.e. greater involvement and investment autonomy. This means that greater anticipation of retirement would result in a greater willingness to become involved in pension arrangements. In addition, uncertainty about the economic environment and retirement concerns stimulate interest in retirement issues and enhances interest in the direction of the investment policy. Doubts about whether the current framework is sufficient to address the underlined concerns trigger the discussion of designing and establishing alternate pension policies oriented toward addressing these concerns under collective pensions. Our research framework, illustrated in Figure 1, serves to identify beliefs, concerns and attitudes about retirement that are attributed to the future design of pension policies, specifically those policies attributed to the greater involvement of pension beneficiaries in defining responsible investment criteria and greater investment autonomy.

Figure 1 Schematic representation of the research framework: individual perceptions of diverse pension policies



We expect that different beliefs and concerns about retirement and pension issues among members and managers would help explain any discrepancies in their attitudes toward the suggested pension policies.

6. Research method

We used focus group discussions to collect perceptions on involvement and responsible investing, as focus groups are an efficient way to capture the dynamics and the range of pension beneficiaries' attitudes toward the new pension policies by allowing participants to respond to each other's opinions (Morgan, 1997; Stewart *et al.*, 2007). As focus groups provide a social context within the data generated, the different viewpoints raised during the sessions can be further discussed (Ritchie and Lewis, 2003). Our sample consisted of 24 individuals grouped into three semi-structured focus group sessions, each with between seven and nine participants (13 females and 11 males; Table I). The three panels were designed to follow a purposive sampling process to meet the criteria for homogeneity (Sandelowski, 1995). Sim (1998) argues that heterogeneity in the formation of focus groups with respect to demographic characteristics (e.g. age), educational background (low, middle and high levels of education) and occupation (e.g. nurses and pension fund managers) might influence participants' willingness to freely express their views. Therefore, following Malhotra and Birks (2005), we created homogeneous focus groups based on age and occupational identity.

The first two focus groups consisted of cooperative members selected from PGGM's member panel using the aforementioned criteria. Members received a small reimbursement that covered their travel expenses. The focus group discussions were held

Table I Number of participants in the three focus groups

	Gender		
Focus group	*Females*	*Males*	*Total*
M45+	5 38.5%	4 36.4%	9 37.5%
M45−	5 38.5%	2 18.2%	7 29.2%
PFM	3 23.1%	5 45.5%	8 33.3%
Total	13 100%	11 100%	24 100%

at PGGM's headquarters and were conducted in Dutch by two co-authors[8]. Each focus group session, which lasted 180 minutes, was video-recorded; two observers were present to take notes. In Table II, we illustrate the structure of the focus group sessions. Each session consisted of two parts. After the welcome and the introduction, during which the guidelines of the procedure were given, the first part consisted primarily of questions about general beliefs about retirement, pension policies and member involvement. After a short break, the second part began. In this part, participants completed a task involving alternative investment criteria. They were asked to rank six different investment criteria from most important to least important: sustainability, impact on health, working conditions, living conditions, social initiatives and financial return/efficiency. Moderators introduced the six investment criteria one-by-one in a fixed order. Subsequently, the moderators instructed the participants to individually rank the criteria by their importance (Appendix). A discussion of the ranking results and the investment criteria followed this task.

During the second part of the interviews, the two moderators clarified that participants should consider the trade-off between financial returns/efficiency on investments and investing in the new asset class[9]. They highlighted that greater autonomy would accompany the abolition of some of the benefits of the collective risk coverage, resulting in greater administrative costs. As a result of the greater costs, participants had to directly consider whether they were willing to cover the extra burden by sacrificing a small part of their pension income for more freedom of choice.

More than once, participants indicated that they were delighted to be part of such a discussion. They particularly appreciated being given the opportunity to voice their own opinions and to discuss retirement and pension issues with one another. Thus, along with the fact that the discussions were conducted in homogeneous groups, there is little evidence that our results were affected by a social desirability bias.

We analyzed the content of our data with the Atlas.ti version 7 software (Scientific Software Development, GmbH). The discussions were translated and transcribed verbatim by an assistant. We used the framework approach, whereby a coding frame was inductively constructed and systematically applied to the data. This method of qualitative data analysis is used in a wide range of research disciplines (Ritchie and Spencer, 2002, 2003). Gale *et al.* (2013) illustrate how this method should be applied following specific steps, and this approach to qualitative data analysis comprises several stages (Ritchie and Spencer,

Table II Focus group topics

Topic	*Content*
Part 1: Introduction	Welcome
Images of the retirement age	What images do you have of your old age? What worries or concerns you about your retirement? What do you think will be changed in approximately 10-15 years?
Pension policies	Who do you trust? Freedom of choice? How can we increase involvement?
Part 2: Task completion	
Introduction of alternative investment criteria	
Investment criteria	Where should we give more weight?
Pension	Investing with the priority of financial return/efficiency
Sustainability	Sustainable growth
Labor	Improving working conditions
Health	Investing in healthy aging and in research
Social initiatives	Supporting social initiatives
Summation of the discussion	Summarizing and discussing the results

2002). After the transcription of the interviews, familiarization with the data involved viewing the videos and reading the transcripts. Next, the interview transcripts were analyzed and indexed (coded) following a process of abstraction and conceptualization. In other words, themes and aspects were extracted and coded both deductively and inductively. The deduction process involved the identification of themes and aspects as described by the research framework. The induction process involved the identification of other themes and aspects that stemmed from the data.

7. Results

In this section, we present the results of the qualitative analysis of our focus group discussions involving PGGM members and pension fund managers. Here, we present participants' perceptions of pension policies and the diverse investment criteria. We discuss the results regarding the three concepts that were part of the research framework: retirement beliefs, retirement concerns and attitudes toward new pension policies regarding greater member involvement by introducing investment autonomy and the selection of responsible investment criteria. Table III shows the main themes and underlying aspects that emerged and provides an overview of the number of related quotations given during the group discussions. Wherever applicable, we highlight the differences in views between young members (M45−), older members (M45+) and pension fund managers (PFM). We expect younger members to have more abstract thoughts about their retirement preparations, as their interest in pension issues should be lower levels than that of their older peers, and younger people may have a different risk/return profile for a retirement plan because they have more human capital than their older peers. For example, Fornero and Monticone (2011) find a positive relationship between age and pension participation in Italy. Furthermore, we present some representative quotations to illustrate relevant issues.

7.1 Retirement and pension beliefs

Three different aspects emerged with respect to retirement beliefs, that is perceptions about the post-retirement period of life. The three groups demonstrated certain similarities regarding these perceptions. Most participants stressed the importance of remaining active and healthy following retirement. They showed a positive attitude toward retirement by revealing their intent to do more fun activities, such as travel. They perceived the

Table III Number of quotations regarding aspects of general perceptions in the three focus groups

Themes and aspects		*FG 1*	*FG 2*	*FG 3*	*Total*
1	*Retirement and pension beliefs*				
1.1	Staying active	2	2	5	9
1.2	Staying healthy	2	1	3	6
1.3	Trust	4	1	6	11
2	*Retirement concerns*				
2.1	Uncertainty	5	1	3	9
2.2	Financial concerns	7	4	3	14
2.3	Health concerns	5	3	1	9
2.4	Care concerns	3	3	5	11
2.5	Living conditions	1	2	1	4
2.6	Working concerns	3	5	0	8
2.7	Independence	3	3	6	12
3	*Pension policies*				
3.1	Involvement/investment autonomy	9	6	25	40
3.2	Investment criteria	4	5	10	19

Note: FG 1, FG 2 and FG 3 denote young members below 45 years old, older members above 45 years old and pension fund managers, respectively post-retirement period as pleasant, and many conveyed their intention to engage in new activities when asked what they wanted to do after retirement:

> (M45+) "Sports, being active. Not necessarily traveling more. I'd like to go on vacation five times a year" and "Happy: I see myself do fun things with family, grandchildren. I look forward to it. All the time I'll have is for doing fun things. A burden falls off you in terms of pressure and responsibility."

> (M45−) "I hope I can stay active. Want another house, children who live on their own, big garden, chickens", "Do things you're currently not. And how to manage financially. In that order", "Traveling: France or China. I can be as happy camping as I can be in China. Within this scope I'm okay. I relativize", and "Most important is that you're healthy. If you have financial needs as well [. . .]. "

> (PFM) "Stay healthy, being able to do what you want to do", "I would like to keep working, not fulltime, but I want to do something useful,", and "Stay healthy. Being able to do what you want to do. Being mobile."

Participants who were closer to retirement age expressed feelings of anticipation. In contrast, younger colleagues reported that they sometimes thought about retirement and pension issues because these issues are frequently in the news but that they had not made immediate plans because they were far from retirement. As such, younger colleagues depicted an even more abstract image than older members:

> (M45−) "I'm a person who lives here and now. Do not think about my pension. Sometimes, when it is in the news. Image of free time is attractive? Yes! On the other hand: now just enjoy working!" and "I do think about it, mainly because it's in the news a lot. I do not look forward to it. I live now and I'm only hoping I can do later (when retired) what I do now. I try to enjoy live now as well."

A third aspect of the discussions addressed trust or the lack of trust in the pension fund administrator and in politicians regarding pension issues. Some participants related trust with the notions of confidence and transparency in the pension system. Some participants stressed that involvement should include greater participation in community service and a greater freedom of choice, and this progressive approach is characterized by participating in volunteer work and engaging in community activities. Separately, trust in government policies was ambiguous for some participants, whereas others showed more confidence that their pension fund would manage their pension issues well. Other participants indicated that more transparency and dialogue would increase trust and confidence in the pension system. In conclusion, positive attitudes toward greater autonomy characterized the majority of the participants:

> (M45+) "Trust is under pressure at financials", and "I need my pension, so I have to trust PGGM."

> (M45−) "It does not matter what arrangements there are, it's about the policy choices made by politicians. Politics has drawn unreliable in recent years", and "but how do you check that your confidence in pension is right? Trust first, No real communication, how are you so sure that what is communicated is also reality", and "more transparency-more involvement."

7.2 Retirement concerns

A theme that emerged from the discussions regarding retirement concerns and depicting general concerns about future outcome was that of uncertainty. The underlying aspects of retirement concerns were primary linked to financial concerns, followed by healthcare, working concerns and living concerns.

The first theme that arose in the discussions involved increased levels of uncertainty and feelings of insecurity resulting from news about the current prospects of the Dutch economy and its fragile prospects for growth. Some of the participants expressed uncertainty regarding their post-retirement quality of life and about their pensions' future evolution. Some of the younger participants felt more uncertain about the state retirement age, the present economic situation and their labor conditions:

(M45−) "I wonder whether retirement will come on a certain date or whether we will just get more flexibility in labor and leisure time."

In contrast to members, some managers stressed their concerns about current economic conditions rather than worrying about retirement issues:

(PFM) "I do not worry about retirement, but I worry about the present: what's going to happen during this period?"

Participants frequently combined financial and related concerns with the prospect of good lives after retirement. The younger group was more concerned about financial conditions than their older colleagues:

(M45−) "I'm not concerned at all. I live by the day. My husband has a job. Do not worry before tomorrow. You hear a lot, but I'm not worried."

A participant from the manager group stated:

(PFM) "I would like to have enough money to decide who will take care of me when I'm old."

The majority of the participants recognized the importance of saving for retirement. Some associated financial concerns to independence. A large number of participants also highlighted the additional financial difficulties they faced because of the instability of the financial environment. Some members considered working after reaching the state retirement age to be unappealing. They often mentioned the harsh working conditions and the amount of mental and physical strength that characterized work in the healthcare sector:

(M45−) "Working longer, how will we manage to do that? Working in healthcare is strenuous. At this pace, I won't be able to work this hard until I'm 68. How are we going to plan for that?"

By contrast, managers showed fewer concerns about work, but they were more concerned about the current quality of care being provided and whether this quality would deteriorate over time. They also frequently related the need to having sufficient financial means to secure good care:

(PFM) "The quality of care for the elderly is disappointing. I do worry about the quality of care. Will we have to take care of ourselves in the future? Care is under increasing pressure – there's less money and more aging."

Conversely, members focused more on healthcare provision issues, such as the increased difficulty of providing healthcare in society. They frequently suggested the need for more volunteering and social reciprocity as a solution to the rising costs of healthcare provision. Participants recognized that staying healthy is important for quality of life after retirement. In addition, we found that remaining independent after retirement was frequently combined with living and financial concerns. The prospect of nursing home residence was not appealing to some of the respondents:

(M45+) "We are supposed to live longer independently in our own houses. Not everyone can get care at home, because of stairs, for example."

(M45−) "Self-reliance: If I'm not capable of taking care of myself, but I want to be self-reliant, then I need help with that", and "Worried that I have to go to a home for the elderly. Worried about my health. These things are worse than financial problems. What if my children must take care of me?"

(PFM) "I would like to have enough money to decide who will take care of me when I'm old. I do not want to go to a nursing home. When I'm fragile, I want to have sufficient funds to stay outside of the system."

7.3 Pension policies

The last section of the contextual analysis describes the themes that emerged with regard to the new pension policy. We describe two main themes: members' involvement and investment autonomy and investing according to specific investment criteria, such as sustainability and impact investment criteria and financial return/efficiency. The theme of involvement through greater investment autonomy and freedom of choice was discussed thoroughly. Analysis of the theme revealed positive attitudes, although there were some self-efficacy concerns. Younger members indicated a more negative attitude toward increased involvement in such concerns than older members:

> (M45−) "Involvement by making choices. Then, you need to read something once! Now I do not need to do anything. Do people still want to choose? It's as with health insurance. Needs differ. Pension administrators do too little to explain" ,"I'm actually happy that I may not choose, those are choices that I can't make. If I should choose myself, I have to go into the subject. I might hesitate and it makes my life very stressful. Now I think: this is it, and I will see what's going to happen in the future", and "Make more decisions yourself. Some people want it, but [they] cannot do it."

> (M45+) "I actually should have stopped working when I was 60. I worked 2.5 years longer than I should have. It's important to have one's own choice."

> (PFM) "It is compulsory to be affiliated with a pension fund. I cannot make a choice. It is not a question of what I think of it. I want to choose my own pension provider."

Participants frequently related the notion of freedom of choice to self-control, increased responsibility and decreased collectivity. Some members stressed the complexity of such decisions and their lack of knowledge and observed that increased involvement would be time-consuming. Some managers suggested that with greater autonomy, people should also be protected from making unwise choices. As one member stated:

> (M45+) "You start working, and immediately, you are automatically in a pension fund. Later, you have to do more for yourself in combination with a dichotomy. Globalization will continue, for example, and there will be 'haves and have-nots', more responsibility, and a clear decrease in solidarity."

Pension managers showed a more positive attitude toward involvement and pension autonomy than members but stressed that people should be perceptional in making such choices, and the danger of decreasing solidarity and collectivity in such scenarios:

> (PFM) "Making choices is difficult for a lot of people because long-term is difficult. People make choices that do not work in the long run. You lose collectivity."

In addition, participants expressed their views on the perceived importance of the following six investment criteria:

1. investing with the primary goal of financial return/efficiency only;
2. investing in health;
3. investing in improving working conditions;
4. investing in improving living conditions;
5. investing according to sustainability criteria; and
6. supporting contemporary social initiatives.

Financial return/efficiency in this context refers to investment management that aims to achieve only the highest return under the pension policy mandate. Briefly, the first option reflects the effort of pension fund managers to manage these funds in the best interest of beneficiaries, considering only financial criteria. The next three options involve investments that might have a direct or indirect impact on pension participants in the healthcare sector, including healthy aging by improving health awareness and investing in medical innovation as the second option overall, improving working conditions for active employees as the next option and improving living conditions for greater well-being after retirement as the fourth option. The fifth option involves sustainability criteria that would benefit both society and the environment in the long run.

The last option refers to financial support for social initiatives in the healthcare sector, such as community aid activities and efforts to improve access to healthcare. A different aspect of pension funds' responsibility related to their role as institutional investors to support social initiatives. There is no financial compensation or direct reward for social initiatives or for support of volunteer organizations. Social initiatives are closely related to the notions of CSR, active corporate community involvement and corporate or impact philanthropy. Hess *et al.* (2002) posit that "corporate philanthropy has evolved into a new form with the business-like description of 'corporate community involvement'", and these authors then introduce the term "corporate social initiatives" by linking it to a firm's core values. Hess and Warren (2008) highlight the importance of social initiatives combined with social impact and sustainability.

Most members expressed a positive view regarding investments made by incorporating impact investment and sustainability criteria. Nevertheless, they stressed ensuring financial security in combination with the organization's social responsibility. These 45+ participants indicated that sustainability and social initiatives were the most important criteria, although their younger colleagues indicated that working conditions and sustainable investing were the most important criteria to them. In contrast to the opinions of members, managers considered pension efficiency to be the most important criterion:

> (M45+) "Sustainability is broader than just the green side, as is what comes after us. Look at healthcare and welfare."

> (M45+) "Sustainability is important. Pensions should not be endangered, even a little."

Some respondents indicated the need for more social reciprocity and consideration of non-financial aspects in pension fund decisions:

> (PFM) "If you have so much money at your disposal, you may have to take a social role and not only think about money."

Some managers, however, had different views than members regarding investing in the new asset class by following criteria other than financial efficiency, and they were less receptive to the notion of trading financial efficiency for greater social value added. These managers argued that social goals are complementary and irrelevant to the mission of the organization and should not be a direct concern of the pension fund. For these managers, the pension's financial efficiency should be the primary and only objective:

> (PFM) "PGGM's primary task is to ensure efficiency. Other aspects we try to do as well. We are not a charity institution."

8. Discussion

The last global financial crisis and the turmoil period that followed left its mark on the Dutch economy. Following the crisis, a number of Dutch pension funds faced decreased pension funding ratios because of increased liabilities, which were the result of decreased returns and asset value. The Dutch regulator required these pension funds to comply with certain financial measures and to implement five-year recovery plans to reach their pre-crisis ratio levels. Furthermore, financial and demographic factors have initiated an ongoing debate over pension reforms, which is high on the Dutch political agenda. As such, pension beneficiaries are making their retirement plans in an environment characterized by increased uncertainty and concern about future retirement issues and amid a plethora of information about the necessity of policy reforms addressing current pension arrangements. These developments have increased beneficiaries' interest in retirement and pension issues and their desire to become involved in decisions that may affect their future.

The continuous pressure on the pension system has signaled the discussion of a plan that aims to disentangle pension beneficiaries with diverse risk preferences and expectations. However, the current proposed reforms take into consideration only individual choices regarding the perspective of future income in the long term in a tradeoff of the risk–return decision-making process. Most importantly, these propositions do not tackle important retirement issues such as improving quality of life after retirement, and they do not address the direction and purpose of investing in pension capital apart from achieving the goals of financial returns and efficiency and, therefore, a sufficient pension.

We present a study on the Dutch care and well-being sector, featuring a qualitative approach to examine pension participants' attitudes toward pension policies that aim to address issues of well-being after retirement via responsible investment. The proposed policies include pension beneficiaries' greater involvement and investment autonomy in selecting the criteria for long-term investing. Such criteria included SRI with the aim of sustainability and impact investment with regard to the healthcare sector. We held focus group discussions that included two homogeneous groups of members and one group of pension fund managers.

In general, our findings demonstrate pension beneficiaries' positive attitudes toward new pension policies such as increased involvement via greater freedom of choice and responsible investing. However, they also expressed concerns about their ability to manage their retirement planning and raised certain concerns regarding self-efficacy. The last finding is in line with Van Els *et al.* (2003), who assert that the Dutch prefer their pension plans to be managed by experts. The younger cohort of members (45−) indicated an increased reluctance to greater involvement than the older group of members (45+) and the manager group. In addition to the consensus on general retirement concerns, our results show that members' and pension fund managers' classifications of diverse investment criteria differed substantially. The managers were more focused on financial efficiency than the members, whereas the members were more interested in responsible investment and were more willing than the pension fund managers to trade financial efficiency to achieve greater social value. Botti and Iyengar (2006) argue that individual choice is moderated by the level of expertise, i.e. the greater an individual's expertise, the more he or she can engage in complex decision-making. Van Rooij *et al.* (2007) argue that the Dutch are resistant to any changes in the pension structure because of both uncertainty about their financial skills and risk aversion and that the Dutch prefer to remain in their current situation because of status quo bias.

Our findings can be interpreted with the help of the different retirement beliefs and concerns of members and managers. Although all groups highlighted the importance of staying active, healthy and having good financial conditions, we identify some differences in their views. The younger group of members had a more abstract image of retirement, showed a higher level of uncertainty and was more concerned about financial issues. The older group of members had more working concerns regarding to the heavy workload and the possibility to keep working after they reached the state retirement age than the other two groups. In contrast, managers were less concerned about financial issues and were more concerned about healthcare provision and staying independent after retirement than members. Another aspect that emerged through the discussions and related to involvement is trust. Members over 45 showed more trust in the pension system than in politicians and proposed that this system should become more transparent to increase involvement.

Our findings highlight that investment preferences are not completely aligned between pension fund managers and pension beneficiaries, in line with agency theory predictions. The formation of diverse attitudes and preferences toward responsible investment between the two groups is guided by different beliefs and influenced by different concerns about retirement issues. Furthermore, we document significant heterogeneity between the views of younger and older members regarding their involvement intent. Although our study offers important findings on pension beneficiaries' preferences regarding long-term responsible investment criteria, these findings are subject to the further examination of retirement preferences and offer primarily preliminary evidence; therefore, they should be considered with caution.

8.1 Choice inconsistencies and future research

Although our findings are robust to desirability bias, the order of the preferences regarding investment criteria may change due to the influence of "psychological distance" or other human behavioral biases, thus resulting in inconsistent behavior. Even when individuals state the importance of sustainability, greater participation and involvement and freedom of choice, inertia and the loss-aversion effect might ultimately prevail and alter individuals' preferences for pension efficiency and financial return (Thaler and Sunstein, 2008).

Future research should examine whether individuals are able to make systematic choices, study their levels of consistency to express their views and preferences in the long run and analyze their preferences under a choice architecture regarding alternative investment strategies by pension funds. Future research should further investigate the relationship between psychological distance (Liberman and Trope, 2008; Trope and Liberman, 2000, 2003) and long-term investment criteria and identify the psychological distance between different groups regarding responsible investments. With respect to the level of consistency of people's views, under appropriate intervention strategies, there is a basis for long-term debate on investment criteria and for members' examination of investment policies.

Policy makers should tackle the problem of probable inconsistent preferences regarding the provision of greater investment autonomy and a lack of interest among younger people. We stress that this choice should be accompanied by different intervention strategies, varying from improving financial literacy to carefully designing choice architectures.

A well-designed choice architecture can help people manage their biases and make better choices. Framing and nudging communication strategies and improving financial education are examples of strategies that aim to transcend human behavioral biases in this context of pension fund beneficiaries. Nijboer and Boon (2012) argue that policy makers should reform the Dutch pension system in the direction of libertarian and paternalistic interventions, as described by Thaler and Sunstein (2008), that offer greater freedom of choice under certain circumstances. A public or private choice architect has the discretionary ability to design an intervention policy, including nudging practices to moderate the effects of behavioral biases on the decision-making process (Thaler and Sunstein, 2008; Johnson *et al.*, 2012). Furthermore, Lynch and Zauberman (2006) and Zhao *et al.* (2007) suggest the use of framing interventions and mental simulation procedures to reduce preference inconsistency.

Furthermore, policy makers should tackle the problem of young people's insufficient interest in pension issues, which may limit their involvement. A probable solution would be to implement communication strategies aiming to increase awareness among the young population about retirement. We suggest that future research investigate the selection of appropriate tools, such as the default choices in appropriately designed choice architecture (Thaler and Sunstein, 2008). Nevertheless, due to human limitations, plans for greater autonomy should be carefully designed and implemented.

9. Conclusions

Responsible investment is gaining importance as an alternative form of asset management that aims to reconcile mainstream and alternative investing on the basis of creating both financial return and positive social impact in human development and welfare. Most importantly, this new culture of responsible investment, in addition to SRI practices, includes impact investing, which is a proactive way of investing that aims to balance social and financial goals even at the cost of some returns.

This study identifies the beliefs, concerns and attitudes that influence perceptions of alternate pension policies. Policy makers in the pension domain and pension boards responsible for designing pension policies need to identify pension beneficiaries' perceptions of greater involvement and investment autonomy and identify their preferences for diverse investment criteria. Knowledge of factors that influence pension beneficiaries' preferences is important for the design of pension policies that are aligned with beneficiaries' interests and concerns.

This article contributes to the literature on responsible investment by revealing the differences in perceptions between pension fund beneficiaries and managers and by supporting the design of new mandates that integrate responsible investment criteria into pension fund investment policy, as such investment criteria should not be perceived in conflict with pension trustees' fiduciary duty but rather as a part of it. In addition, it enriches the literature on the corporate governance of pension funds by searching for ways to reduce the democratic deficit that currently characterizes the pension system.

Scholars have stressed the democratic deficit in the governance of public funds (Cornforth, 2003; Palazzo and Scherer, 2008; Scherer and Palazzo, 2011). Beneficiaries' greater involvement will contribute to shrinking the democratic deficit and strengthen the legitimacy of pension fund trustees with respect to their fiduciary duty in following investment policies that are oriented toward promoting social values. Finally, we suggest that the examination of pension beneficiaries' greater influence in the formulation of the investment philosophy and in the design of the investment policy based on responsible investment beliefs should be accompanied by an investigation of which organizational structure is best for providing beneficiaries the opportunity for greater involvement and participation.

Notes

1. We refer to the conventional form of investment as mainstream investment practices, methods and decision making.
2. See McWilliams *et al.* (2006)
3. http://harvardkennedyschoolreview.com/social-finance-sorting-hope-from-hype/
4. For instance, PGGM divested from Wal-Mart Stores, Inc., as part of its SRI policy.
5. PGGM responsible investment annual report, 2010. Targeted ESG investments, a part of the SRI program that accounts for 3.6 per cent of the total asset management portfolio, over-performed. In 2014, the targeted ESG program was renamed "Investing in solutions for sustainable development" and accounted for 2.9 per cent of the total AUM. This program involves investing in microfinance funds, such as GMEF and SIMF I & II; private equity related to sustainability and environmental impact, such as Alpinvest Clean Tech PE; infrastructure related to sustainable energy, such as Hg Renewable Power Fund Hg; and real assets, such as Climate Change Capital.
6. The Dutch old age pension system consists of the state pension (AOW), occupational pension and private pension pillars. The AOW is a pay-as-you-go (PAYG) system, and the occupational pillar is funded by pension contributions.
7. Healthy aging, www.mayoclinic.org/healthy-lifestyle/healthy-aging/basics/healthy-aging-over-50/hlv-20049407
8. The discussions were conducted from May to July 2013.
9. We stress that in the long term, the financial returns from responsible investment might be lower or higher than those from conventional investments. We introduce a trade-off when investing in responsible investment that results from greater transaction costs (higher administrative cost = lower expected pension, all else equal).

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Appendix. Focus group task: investment criteria

Table AI Question: "Please rank the following six investment criteria from 1 (most preferred) to 6 (least preferred)"

(Alternative) investment	*Rank*
Financial return/efficiency	1
Sustainability	2
Working conditions	3
Health	4
Social initiatives	5
Living conditions	6

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This article has been cited by:

1. George Apostolakis, Frido Kraanen, Gert van Dijk. 2016. Examining pension beneficiaries' willingness to pay for a socially responsible and impact investment portfolio: A case study in the Dutch healthcare sector. *Journal of Behavioral and Experimental Finance* **11**, 27-43. [CrossRef]