

Morgan Stanley

INSTITUTE FOR SUSTAINABLE INVESTING



Sustainable Investment Options in Employer Retirement Plans

Views from Employees and Corporates

Key Takeaways From Our Surveys

1

Employees are interested in sustainable options, mostly driven by financial considerations

Three quarters of U.S. individuals with 401(k)s or equivalents are open to incorporating sustainable options into their retirement plans, with 24% already doing and 52% interested in doing so in the future. Millennials are most likely to do this today (34%), while 73% of Gen Z plan to do so over time. Nearly three quarters of respondents include financial returns as a reason for their interest in sustainable investments, with 40% saying their top motivation is supporting real-world outcomes alongside a market-rate financial return, and a third saying the main reason for investing in sustainable funds is a belief that sustainable options may offer stronger financial returns.

2

Corporates are providing sustainable options, but there seems to be a disconnect between interest and take-up

Over 80% of U.S. corporates offer some sustainable investment options in their employee retirement plans, but just 36% of individuals with 401(k)s know this, according to our surveys. There appears to be a disconnect between interest and take-up among employees as well, with 62% of corporates saying interest among employees is low or moderate despite 76% of employees saying they are interested.

3

For corporates, top challenges for implementing sustainable investment options are employee demand and regulatory concerns

When asked about the challenges of offering sustainable investment options in employee retirement plans, 30% of corporates note a lack of demand from employees, with 14% naming it their top challenge. Regulatory or compliance concerns are also top of mind, with 28% citing this as an issue and 14% rating it their top challenge.

About the Sustainable Signals Series

This report is led by the Morgan Stanley Institute for Sustainable Investing (“Institute”) and presents results from two online surveys conducted by Dynata LLC on behalf of the Institute.

INDIVIDUALS

From February 18 to March 25, 2025, 390 respondents in the U.S., matched to 2020 Census records for age, gender identity, sexual orientation, race and ethnicity, and household income, were surveyed. From this group, 195 respondents reported that they have a 401(k), 403(b) or 457(b), hereafter referred to as 401(k) or equivalent.

CORPORATES

From March 17 to April 11, 2025, 99 U.S.-headquartered corporates with annual revenue of at least \$100m were surveyed, with questions around sustainable investment options alongside other topics. The survey design set quotas for ownership and to achieve a spread of sectors.

The sources for all charts are the surveys unless otherwise indicated. For more information on the sample profile and quotas, please see pages 19-20.

DEFINITIONS

The following definitions of “ESG” and “sustainable investing” were provided to respondents:

‘ESG’ is the practice of considering environmental, social and governance aspects when investing in companies or funds.

‘Sustainable investing’ is the practice of making investments in companies or funds that aim to achieve market-rate financial returns while considering positive social and/or environmental outcomes.

CONTACT US

For any questions related to the report, please reach out to globalsustainability@morganstanley.com.

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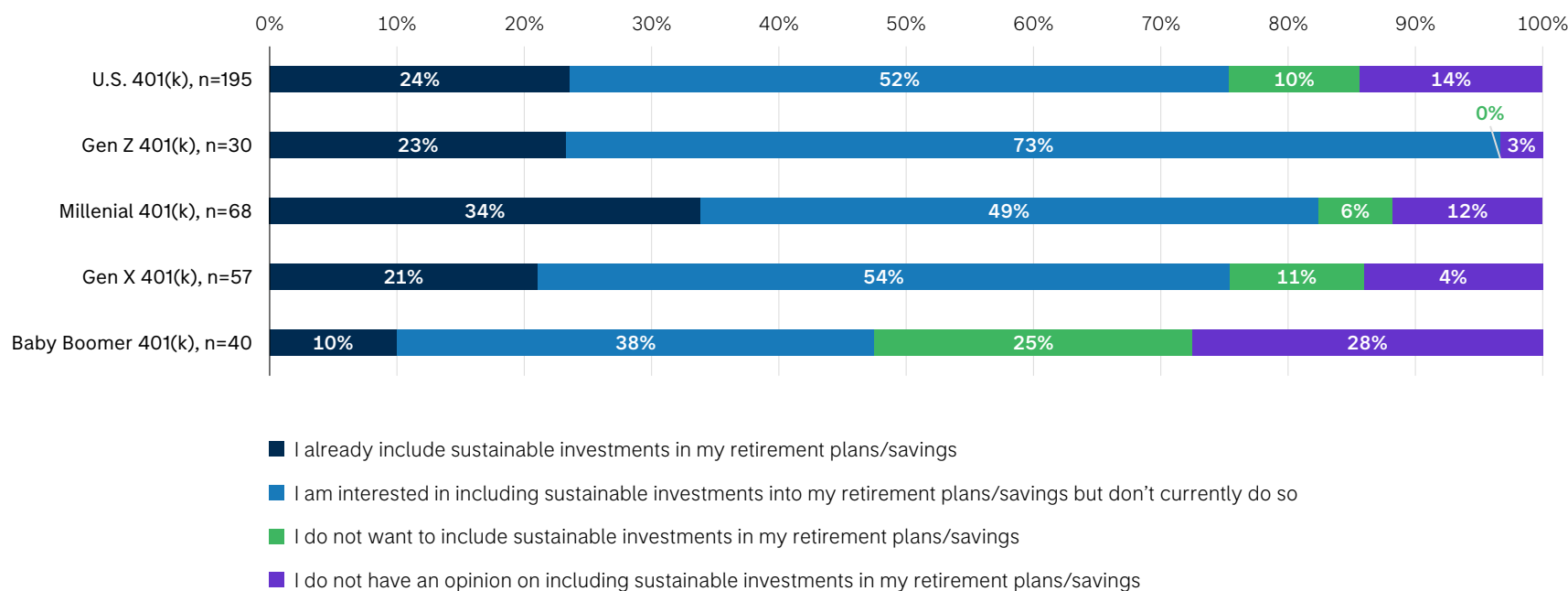
Interest & Motivation

Strong interest for sustainable options in 401(k) plans

A quarter of U.S. individuals with 401(k)s already include sustainable investing options into their plans, with an additional half interested in doing so in future. Younger generations are more interested in sustainable investments, with 97% of Gen Z either already participating or interested in doing so compared to 48% of Baby Boomers.

Please choose the option that comes closest to your experience.

Those with a 401(k) or equivalent



Source: Morgan Stanley Institute for Sustainable Investing, April 2025.

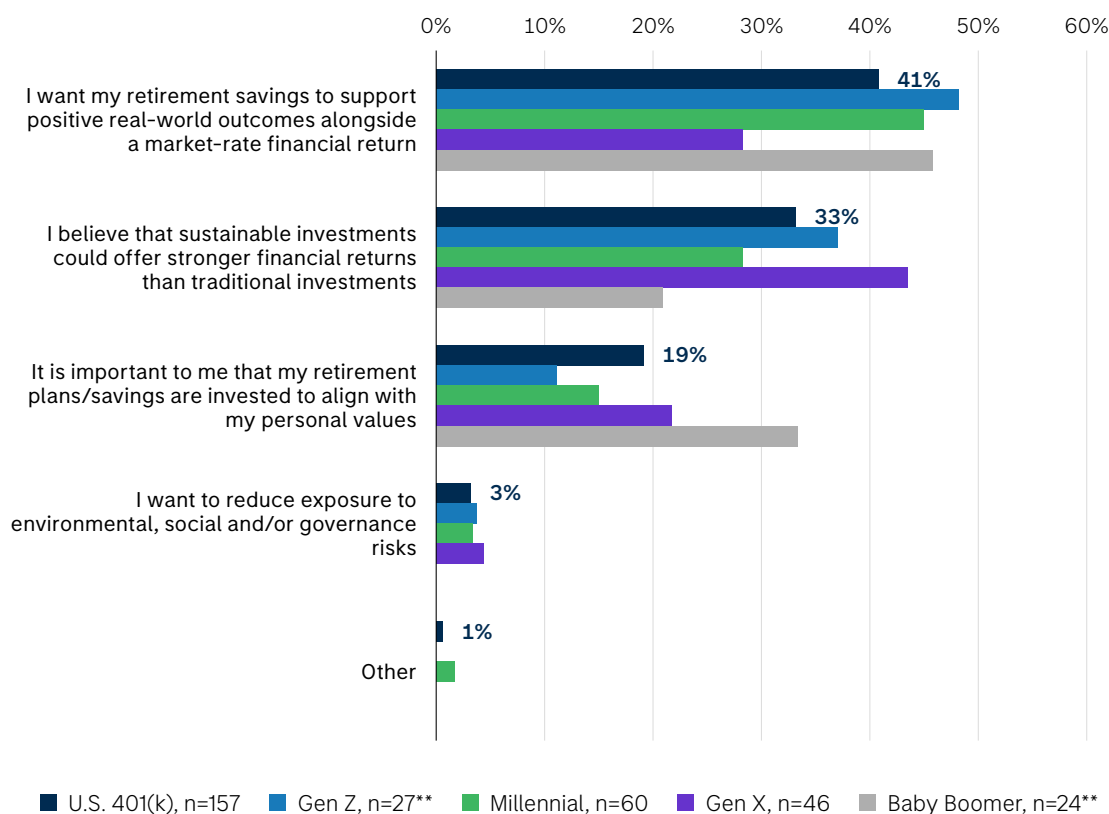
Financial considerations are central to motivation

Nearly three-quarters of respondents include financial returns as a reason for their interest in sustainable investments.

When asked for the reasons behind their interest, over 40% say supporting real-world outcomes alongside a market-rate financial return is their top reason. Close behind is a belief that sustainable investments could offer stronger financial returns, at 33%. Other potential motivations, such as aligning retirement savings to personal values or reducing exposure to risks, are less significant.

Please select the top reason driving your interest.

Those interested in sustainable investments for their 401(k)



Source: Morgan Stanley Institute for Sustainable Investing, April 2025.

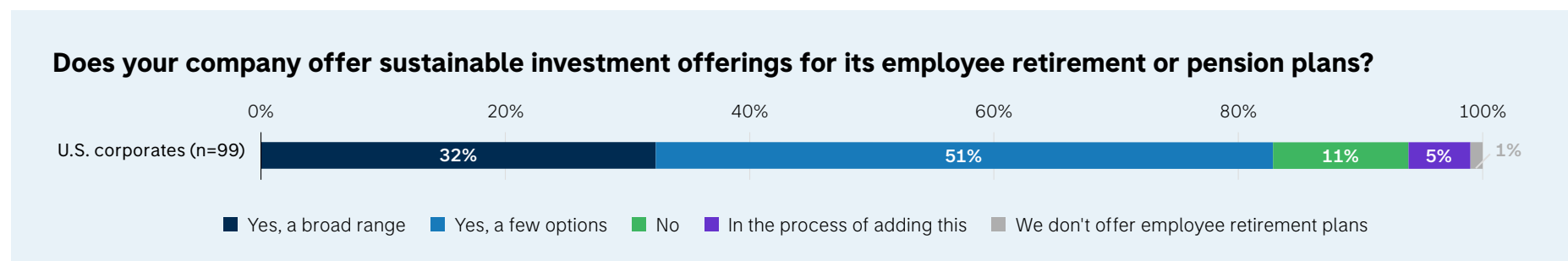
** Very small sample, may not be representative



Translating Interest into Action

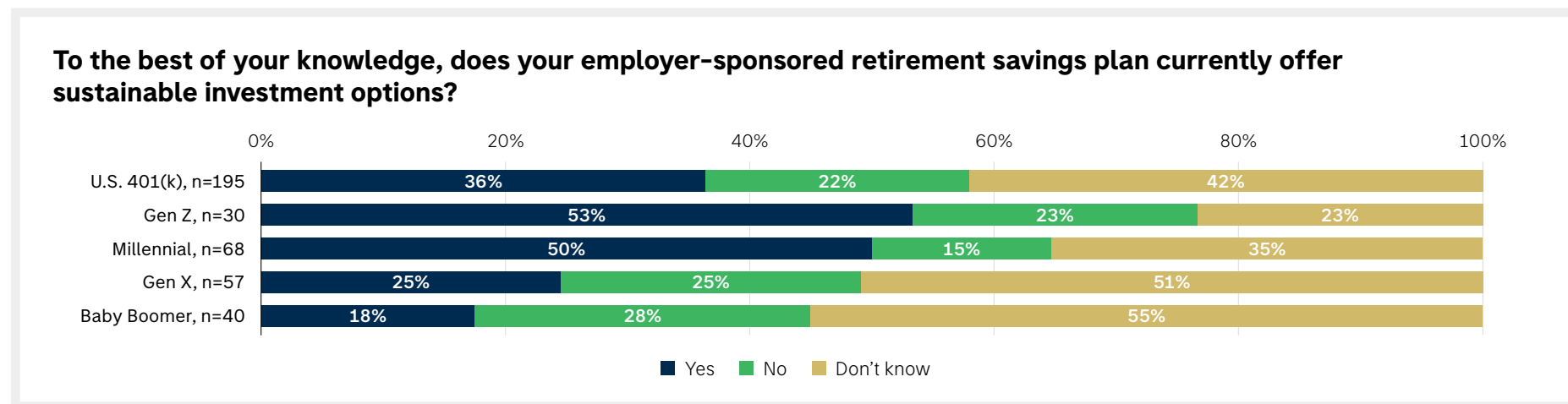
Most corporates already offer sustainable investment options, but only a third of 401(k) holders are aware

More than 80% of U.S. corporate respondents offer sustainable investment options, with 32% offering a wide range and 51% offering a few choices. Only 11% report that they don't offer any.



Source: Morgan Stanley Institute for Sustainable Investing, May 2025.

However, employee awareness is at much lower levels. Just 36% of individual respondents say their company offers sustainable investment options, with 42% saying they don't know. Younger age groups report higher levels of knowledge, but still lag the availability that corporates report.



Source: Morgan Stanley Institute for Sustainable Investing, April 2025.

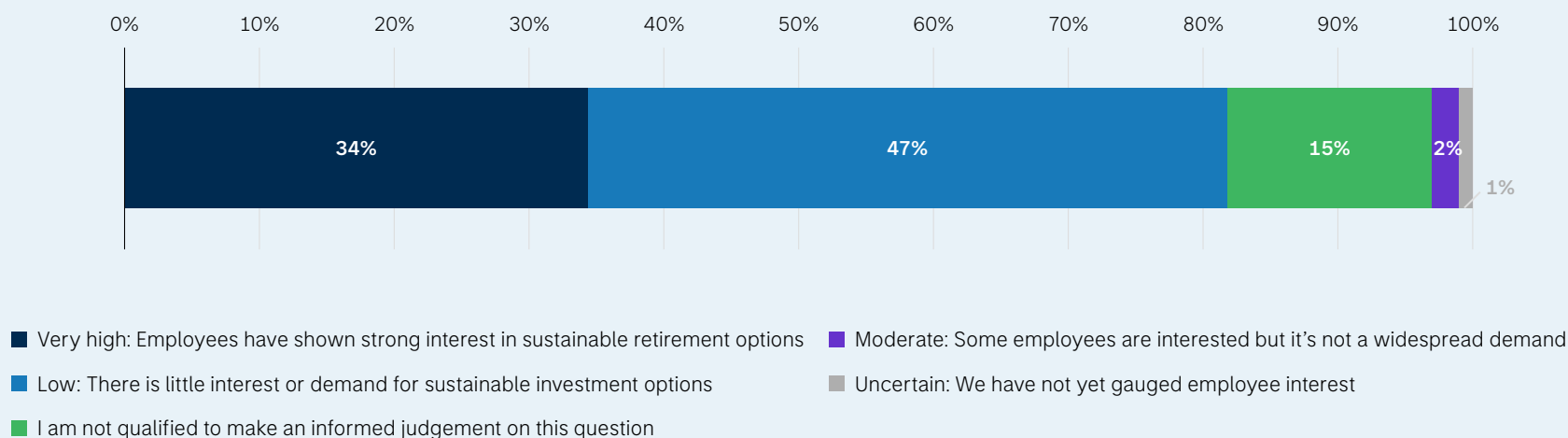
There appears to be a disconnect between employee interest and take-up of sustainable options

Over 80% of U.S. corporates* report some interest from their employees in sustainable investment options for retirement plans—broadly in line with the three quarters of our individual respondents who say they already incorporate these options or want to do so in the future.

However, just 34% of companies report “very high” interest from employees, with 62% saying demand is either not widespread (47%) or low (15%). This suggests that while individuals with 401(k)s may report interest in adding sustainable investment options, this does not necessarily translate into action. Most U.S. corporates have explored this with their employees, with only 2% reporting that they have not yet gauged interest from employees.

How would you rate the level of demand or interest from your employees for sustainable investment options in retirement or pension plans?

U.S. corporates (n=99)



Source: Morgan Stanley Institute for Sustainable Investing, May 2025.

* Corporates had to have annual revenue over \$100m to qualify for the survey, so views from smaller companies are not represented. However, our survey did not find significant differences between companies across the revenue brackets covered or for listed and privately owned companies.

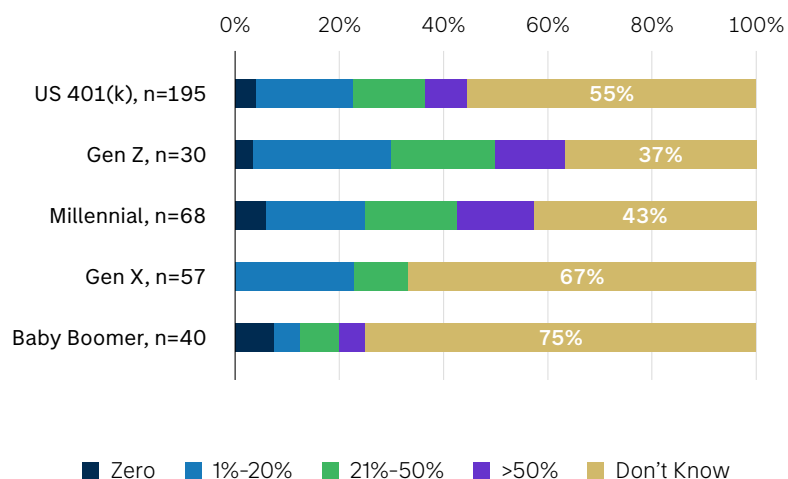
401(k) holders are less aware of what they're invested in than other account holders

More than half of those with 401(k)s don't know how much of their retirement savings are currently in sustainable investments (55%). This is especially true among older age groups.

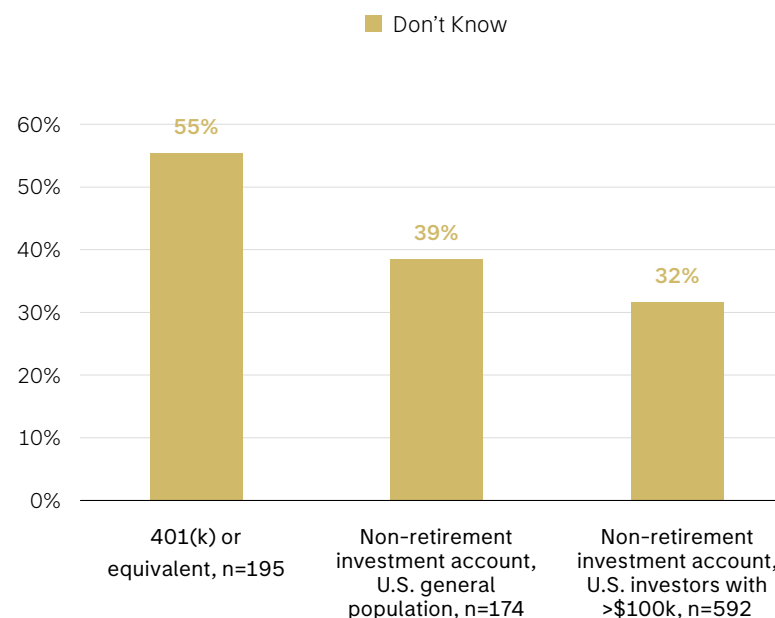
This lack of awareness is higher for 401(k) investments than for non-retirement investment accounts. In a wider sample of the U.S. population, only 39% responded that they didn't know what proportion of their non-retirement investment account is in sustainable options, falling to 32% for U.S. investors with over \$100,000 in our [2025 Sustainable Signals](#) survey.

To the best of your knowledge, what percentage of your retirement plan/savings is currently invested in sustainable options?

Those with a 401(k) or equivalent



What proportion of your 401(k) / non-retirement investment account is currently invested in sustainable options?



Source: Morgan Stanley Institute for Sustainable Investing, April 2025.



Key Challenges & Concerns

Lack of demand from employees and regulatory concerns are top challenges for corporates

Corporates say their top challenges are a lack of demand from employees, as well as regulatory or compliance concerns.

Other common challenges include limited knowledge among employee benefits teams, concern about investment performance and difficulties in educating employees about benefits and risks.

What challenges has your company faced in offering sustainable investment options in your retirement or pension plans?

U.S. corporates (n=99)



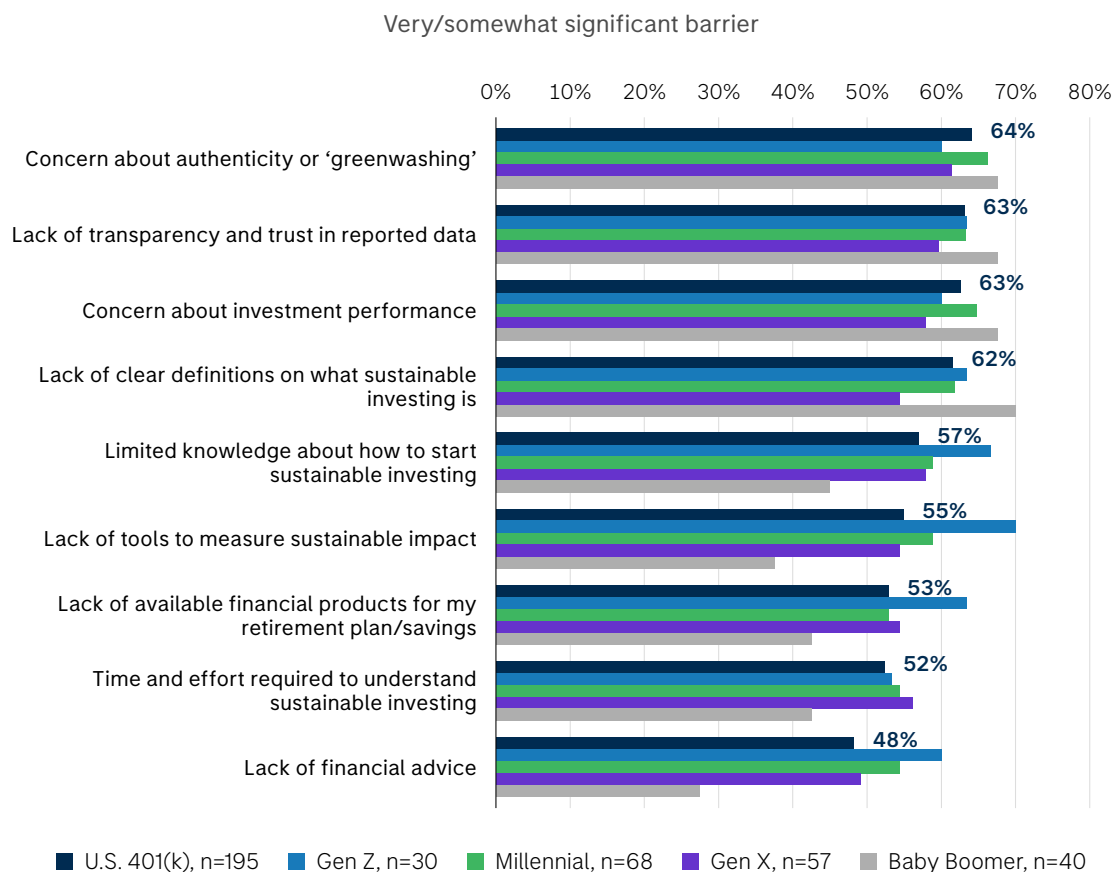
Source: Morgan Stanley Institute for Sustainable Investing, May 2025.

Top concerns for individuals include greenwashing, data trustworthiness and investment performance

Greenwashing, trust in data and investment performance top the list of individual respondents' concerns, with around two thirds naming them as "very" or "somewhat significant" barriers. This is similar to the findings of our [2025 Sustainable Signals](#) survey of individual investors.*

Younger groups are more likely to cite limited knowledge and lack of financial advice as barriers.

How significant are the following barriers to including sustainable investments in your retirement plan/savings?



Source: Morgan Stanley Institute for Sustainable Investing, April 2025.

*Investors with at least \$100,000 in a non-retirement investment account.

A photograph of a wind farm with several large wind turbines on a grassy hill. The image is overlaid with a semi-transparent blue filter. The text "Broader Trends" is centered in white.

Broader Trends

How large is the market for sustainable investments today? Our "Sustainable Reality" series analyzes AUM, flows and returns

Sustainable AUM is around 7% of the global total

Based on Morningstar's Sustainable classification, \$3.56 trillion of AUM is in sustainable funds, or 6.8% of the global total at December 2024. Almost 90% of this is in Europe-domiciled funds, with 10% in North America. Based on investment area, 43% of AUM in sustainable funds invests globally, with 32% in Europe and 15% in Americas.

Performance compared to traditional funds

Taking half-year periods starting with H1 2019, the median return for sustainable funds has outperformed traditional peers in nine periods and underperformed in three periods (H1 2020, H1 2022 and H2 2024). Based on the median return in each period, a hypothetical \$100 investment in December 2018 would be worth \$136 for sustainable funds and \$131 for traditional funds.

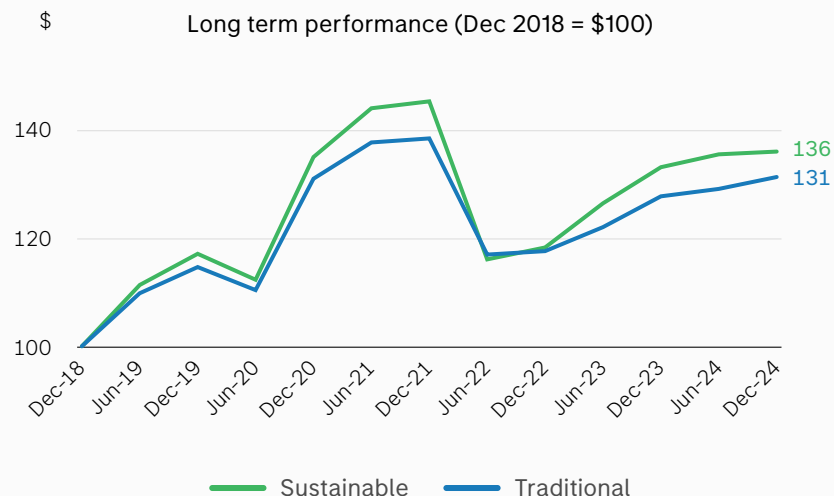
Sustainable AUM reached \$3.56 trillion at Dec 2024

6.8% of total global AUM, down from a high of 7.4%



How \$100 invested in Dec. 2018 would have performed

Assuming funds achieved the median return in each period

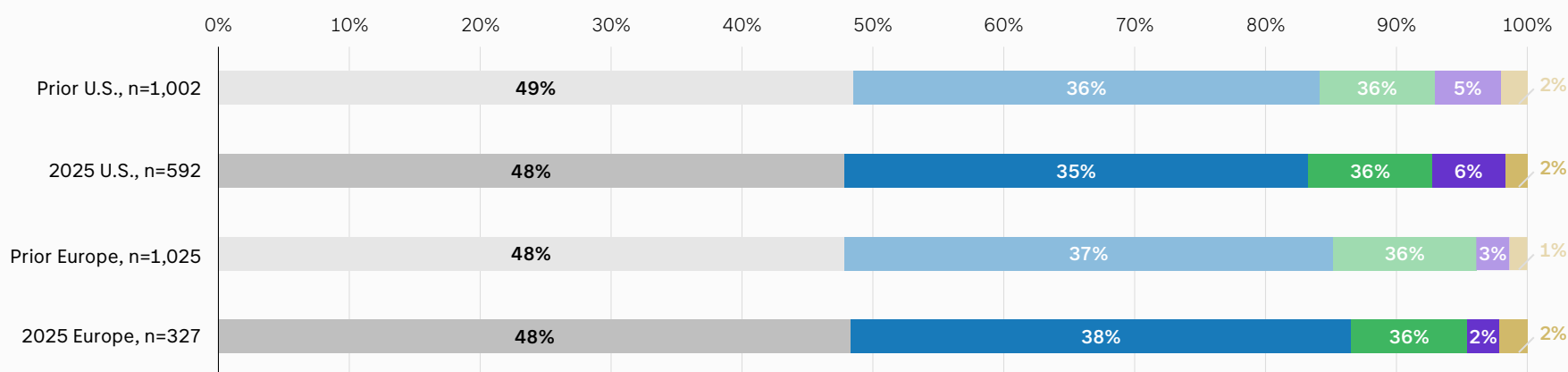


Source: Morgan Stanley analysis of Morningstar data, February 2025. Data begins from 1H 2019 for consistency with Morningstar's Sustainable classification. See the full report: [Sustainable Investment Funds Performance: H2 2024 | Morgan Stanley](#)

Interest in sustainable investing holds steady from 2023 to 2025, according to two Morgan Stanley surveys

Our "Sustainable Signals: Individual Investors" survey series focuses on individual investors with a minimum of \$100,000 in non-retirement investment accounts. In the 2025 survey, 83% of U.S. respondents and 87% of European respondents are "very" or "somewhat interested" in sustainable investing—figures that show no significant change from the prior survey fielded in October 2023 and published in January 2024.

How interested are you in sustainable investing?



The two Sustainable Signals surveys, the first fielded during October 2023 (published in January 2024) and the second in February/March 2025, used the same vendor, qualifying questions and demographic quotas.

For the full 2025 survey, [click here](#).

For the full 2024 survey, [click here](#).

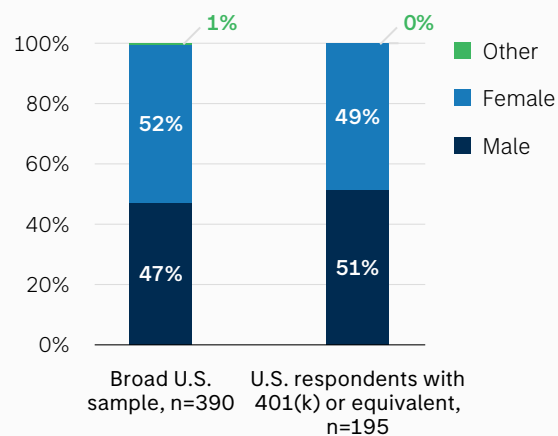
■ Very interested ■ Somewhat interested ■ Not too interested ■ Not at all interested ■ Don't know



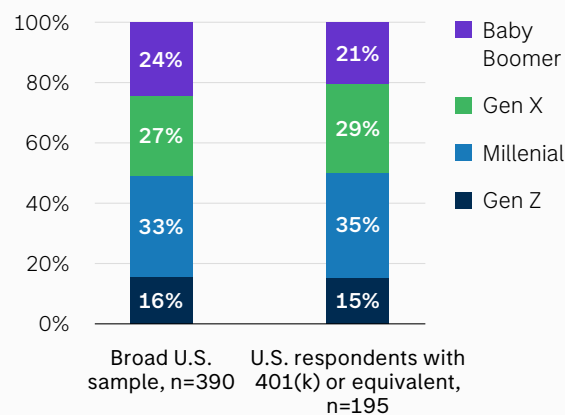
Sample Design

Individual Sample Design - Demographics

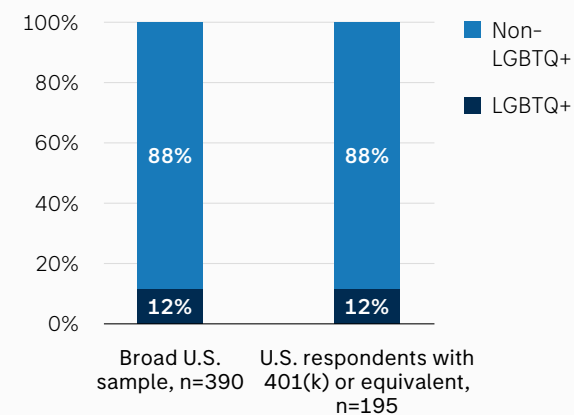
Sample split by gender identity



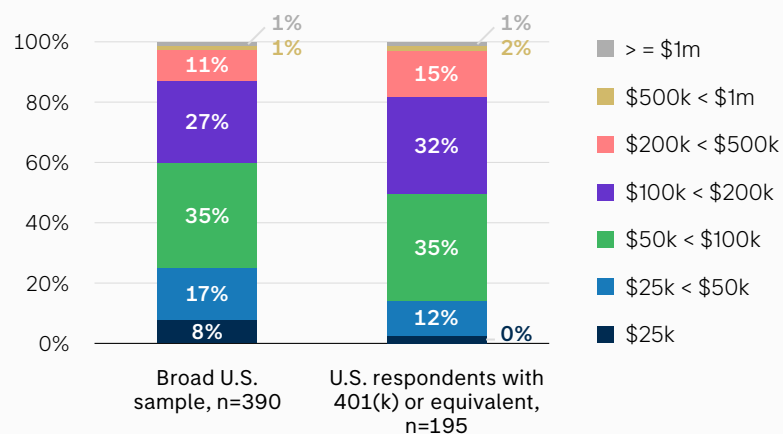
Sample split by generation



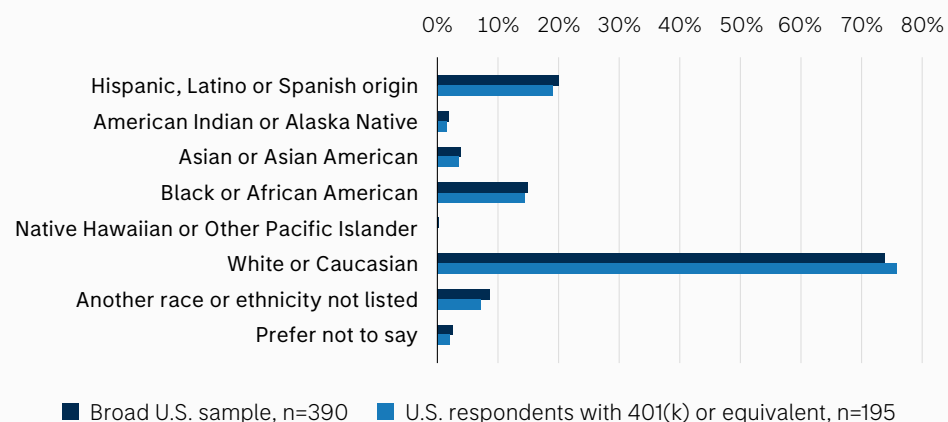
Sample split by sexual identity



Sample split by household income



Sample split by race and ethnicity*



Source: Morgan Stanley Institute for Sustainable Investing, April 2025.

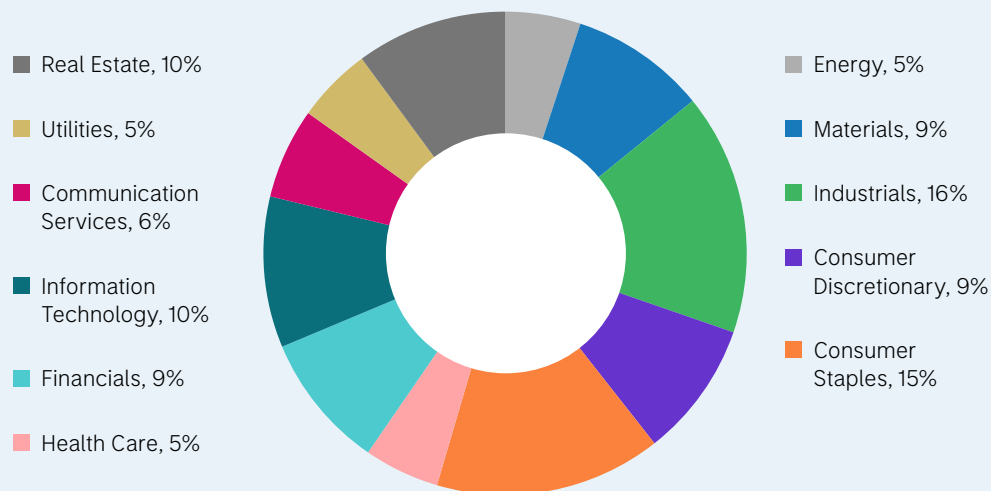
*In line with the U.S. Census methodology, respondents were first asked about Hispanic, Latino or Spanish origin and then asked about race. Answers do not sum to 100% for this reason and also because respondents could select more than one option.

Corporates Sample Design

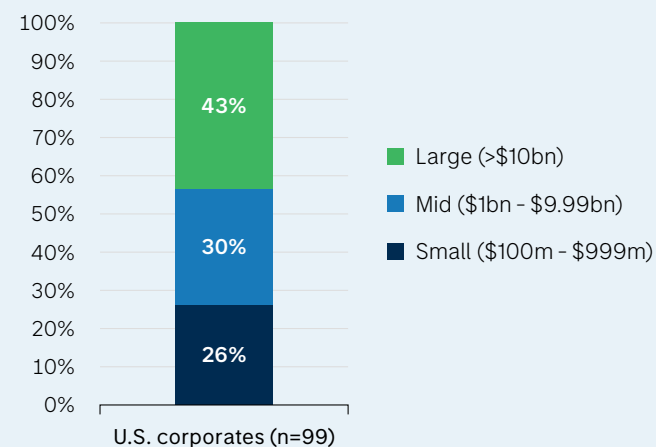
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Sample split by GICS® sector

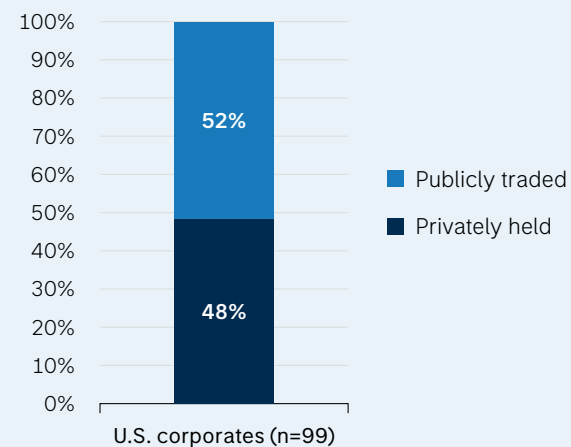
U.S. corporates (n=99)



Sample split by annual revenue



Sample split by ownership



Source: Morgan Stanley Institute for Sustainable Investing, May 2025.



Appendix

Disclosures (1 of 2)

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Disclosures (2 of 2)

ESG investments may also be referred to as Sustainable investments, impact aware investments, socially responsible investments or diversity, equity, and inclusion (“DEI”) investments. It is important to understand there are inconsistent ESG definitions and criteria within the industry, as well as multiple ESG ratings providers that provide ESG ratings of the same subject companies and/or securities that vary among the providers. This is due to a current lack of consistent global reporting and auditing standards as well as differences in definitions, methodologies, processes, data sources and subjectivity among ESG rating providers when determining a rating. Certain issuers of investments including, but not limited to, separately managed accounts (SMAs), mutual funds and exchange traded-funds (ETFs) may have differing and inconsistent views concerning ESG criteria where the ESG claims made in offering documents or other literature may overstate ESG impact. Further, socially responsible norms vary by region, and an issuer’s ESG practices or Morgan Stanley’s assessment of an issuer’s ESG practices can change over time.

Portfolios that include investment holdings deemed ESG investments or that employ ESG screening criteria as part of an overall strategy may experience performance that is lower or higher than a portfolio not employing such practices. Portfolios with ESG restrictions and strategies as well as ESG investments may not be able to take advantage of the same opportunities or market trends as portfolios where ESG criteria is not applied. There is no

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