Australian pension funds and tobacco investments: promoting ill health and out-of-step with their members

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SUMMARY
There has been no systematic examination of issues surrounding pension funds and their tobacco shareholdings. This paper describes two studies designed to document the tobacco investment policies and practices of pension funds, and to assess community and fund member attitudes to pension fund shareholdings in the tobacco industry. Chief executives (n = 282) of Australian pension funds were mailed questionnaires. Of 241 eligible funds, 107 (44.4%) returned questionnaires, representing about 61% of total Australian primary superannuation accounts. Twelve percent indicated that they did not currently hold tobacco investments, 30% held tobacco shares and 58% did not know or failed to answer. Overall, 6% of respondents said that they held no tobacco investments and would not consider future investments; 2% had formal policies precluding tobacco investments. Funds with 10,000 or more members were more likely (p = 0.0006) to report tobacco investments. External fund manager advice was the most important factor influencing the funds’ position. In the second study, a one-third random sub-sample of consenting subjects from 12,000 households randomly selected from the New South Wales Electronic White Pages completed phone interviews. From 7141 eligible households, 3503 (49.1%) subjects consented. One-third (n = 1158) were asked the pension fund questions. Over three-quarters (77.4%) of all respondents disagreed that pension fund investments in tobacco were ethical. Approximately two-thirds (63.6%) of fund members (n = 852) agreed that their funds should not make tobacco investments. There were three statistically significant predictors of opposition to such investments: being female, more highly educated and non-smoking status. Nearly all pension funds treat tobacco investments like any other investment. In contrast, most of the public including fund members are strongly opposed to such investments. Suggestions for public health advocacy strategies to reduce the negative health promotion effects of pension funds in this area are outlined.

Key words: tobacco; tobacco investments; pension funds; tobacco industry

INTRODUCTION
When used as directed by their manufacturers, cigarettes cause the premature death of about 50% of long-term smokers (Doll, 2000). Hence, the tobacco industry, although legal, presents a unique problem for societies serious about improving their members’ health. This problem is compounded by the consistent and on-going attempts of cigarette companies to undermine tobacco control efforts in developed and developing nations (Muggli et al., 2001; Neuman et al., 2002). One approach to tobacco control involves the economic isolation of the tobacco
industry, since it is argued that any market development by the industry will inevitably result in increased deaths (Cancer Research UK, 2002). Pension funds (called superannuation funds in Australia) are key investors in the stock market and have significant effects on share prices (Huynh et al., 2006).

Calls for institutional investors to divest tobacco shareholdings threaten the industry’s share values, publicize its bad behaviour and label it as a politically unacceptable ally (Wander and Malone, 2006). In 1990, US tobacco control advocates began urging government investment and pension funds to divest tobacco stocks as a matter of responsible social policy (Wander and Malone, 2006). Tobacco companies fought hard to counter the divestment push and eventually only seven US states divested their tobacco stocks (Wander and Malone, 2006).

Since 2000, transnational tobacco companies have sought to regain the public’s respect and investor confidence by embracing the principle of ‘corporate social responsibility (CSR)’ (Hirschhorn, 2004). The appearance of British American Tobacco in eighth place on a Corporate Responsibility Index for 2006 published by the St James Ethics Centre suggests the CSR strategy has been at least partially successful (Chapman, 2006). Investment analysts continue to describe tobacco shares as a good buy (Dubose Tomassi, 2006). Incredibly, as late as 2004, five leading US medical schools held shares in the tobacco industry (Wander and Malone, 2004). The scope of current pension fund investments in the tobacco industry is indicated by a 2006 estimate that smoke-free legislation in England could add up to £20 billion (US $35 billion) to UK pension deficits (Simpson, 2006).

In Australia, a report on Rothmans shareholdings in 1999 (the final year of its market listing prior to merger) revealed that one of the largest public retirement funds, State Super (SAS Trustee Corporation), was Rothman’s seventh largest investor with 3,603,066 shares (Rothmans Holdings Limited, 1999). In 2000, the NSW Local Government Superannuation Scheme, a public fund with 70,000 members, announced its decision to dump shares in tobacco companies for ethical reasons and called on other funds to follow its lead (Anonymous, 2000). It is not known whether any funds did, in fact, respond to this call.

In 2002, the last year in which State Super’s Annual Report Highlights listed its individual company stocks, Phillip Morris was 10th in order of international shareholdings (State Super SAS Trustee Corporation, 2002).

Recently, NSW Premier Morris Iemma refused calls to direct Treasury Corp to sell its $12 million investment in Altria (Anonymous, 2006). It was also revealed that Altria shares composed 3% of the NSW Parliamentary Super Scheme’s total funds (Anonymous, 2006). No study has documented the tobacco investment practices of pension funds. Just as there is no systematic information available in relation to pension funds, little is known about public attitudes to this issue of tobacco shareholdings by funds. Surveys of other topics indicate that community perceptions about the tobacco industry have become increasingly negative and more pro-tobacco control (Wakefield et al., 1999). Whether this shift in public attitudes can be generalized to the tobacco investment area is not clear.

Therefore, the objectives of this study were to document the tobacco investment practices of the largest pension funds in Australia and to assess community and fund member attitudes to this issue among NSW residents.

METHODS

Pension fund study

A list of the 300 largest pension funds in Australia was obtained (Super Review, 2004). Eighteen funds had merged prior to the study. Chief executive officers of the remaining 282 funds were sent a letter from the University of Newcastle inviting them to complete the enclosed anonymous questionnaire on tobacco investment practices. The letter acknowledged that arguments existed for and against such investments. Non-responders were mailed a second questionnaire and, if necessary, subsequently received at least one telephone prompt.

The survey consisted of 10 questions: two concerning the fund’s background, six assessing tobacco investment policies and practices, one examining the importance of nine factors in determining the fund’s position on tobacco stocks and one was for comments. The tobacco industry was defined as ‘... companies which
have a major involvement in the manufacture or importation of cigarettes or other tobacco products’. A list of 18 international companies, prepared with advice from ASH (Action on Smoking and Health) Australia, was provided to illustrate the main companies included in the definition.

Community study
The community study consisted of four specific questions in a larger smoking survey conducted in October–December 2004. Subjects were randomly selected from the NSW Electronic White Pages then quotas were applied to increase representativeness. After being sent an introductory letter from The Cancer Council NSW, households were phoned and the person aged 18 years or older with the next birthday was invited to participate in an anonymous computer assisted telephone interview. A random sample of approximately one-third of consenters was asked the pension-related questions.

All of these respondents were asked their level of agreement (five-point scale) with the statement ‘It is ethical for superannuation funds and life insurance companies to invest in the tobacco industry.’ Respondents who indicated that they had money invested in superannuation were asked for the name of their fund(s) and for their level of agreement with the statement ‘I object to my superannuation funds being invested in the tobacco industry even if the investment is profitable.’

Both studies were approved by the University of Newcastle Human Research Ethics Committee.

Statistics
Characteristics of pension funds were summarized by proportions for categorical variables and medians for continuous variables. Chi-square (\(\chi^2\)) analyses were conducted to assess whether each potential predictor variable was associated with the reporting of current tobacco investments. Predictor variables that were statistically significantly associated with the outcome at the 0.25 significance level were then considered for the multiple logistic regression procedure. Odds ratios were calculated for the variables that remained statistically significant at the 0.05 significance level in the logistic regression. Chi-square (\(\chi^2\)) analyses were also conducted to assess whether each potential predictor variable was associated with consideration by funds for future investments in the tobacco industry. For the community survey, percentages along with 95% confidence intervals are reported for responses to the two statements regarding tobacco-related investments. Among the fund member sub-group, the relationships between potential predictors and agreement with the statement objecting to investment of their funds in the tobacco industry were assessed using Chi-square analyses. Variables meeting the 0.25 level of significance were entered into a backward logistic regression procedure. Odds ratios of the variables that remained statistically significant at the 0.05 level of significance in the regression are reported. Goodness of fit of the logistic regression models was assessed using the Hosmer–Lemeshow test.

RESULTS

Pension fund study
Of 282 pension funds approached, 41 funds were ineligible mainly due to fund closures or mergers. The consent rate among the 241 eligible funds was 44.4% (\(n = 107\)). Questionnaires were returned in the period May, 2005 to February, 2006.

Size of responding funds ranged from \(\leq 300\) to over one million members (median \(= 11\,900\)). In total, these funds managed over nine million accounts which, after making a correction for multiple account holders, represented about 61% of total Australian primary superannuation accounts (Clare, 2007). Funds described their membership backgrounds as private sector (73%), public sector (24%) and roughly equal private/public (3%). More than three-quarters (77%) of funds indicated their investments were managed wholly by external fund managers, 19% reported partial external management and 5% did not involve outside managers.

A ‘socially responsible’ investment (SRI) strand was provided by 30% of funds. In four (4%) funds, this was either the only investment option offered or was the default investment strategy.

Tobacco investment policies and practices of pension funds
A small minority (12%) of funds said they did not have any current tobacco investments.
Approximately one-third (30%) currently held tobacco investments, 50% said they did not know whether they had such investments, 7% said they had a policy not to provide such information and one (1%) fund skipped this question.

Funds (n = 75) which did not report any current tobacco investments were asked if they would consider investing in the tobacco industry in the future, subject to an appropriate economic assessment. Of this sub-group, 15% said they would not consider future tobacco investments, 23% said they would, 45% said they did not know and 17% did not answer this question. Of the 13 funds which had previously indicated they had no current tobacco investments, only six (6% of total funds) said they would also not consider such investments in the future.

Two (2%) funds reported formal policies precluding any tobacco industry investments including specific instructions to all external fund managers. A further six (6%) funds had restricted such direction to external managers of their socially responsible investment option(s) only or had selected SRIs which they already knew had this exclusion.

The influence of three variables: fund size, membership background and the availability of an SRI option on the likelihood of reporting current tobacco investments was assessed. In the logistic regression, funds with 10 000 or more members were significantly more likely (p = 0.0006) to report tobacco investments than smaller funds (OR 6.03, 95% CI 2.15–16.90). Membership background and SRI availability were not statistically significant at the 5% significance level.

In relation to future tobacco investment consideration, none of the three variables had a statistically significant effect on the likelihood of funds reporting that they would consider investing in the future. In both these analyses, the Hosmer–Lemeshow test indicated a well-fitting model.

### Factors affecting funds’ current position on tobacco investments

All funds (n = 105) which did not have a formal policy precluding tobacco investments were asked to rate the importance of nine factors on a five-point scale in determining their current position on tobacco investments. Twelve funds failed to provide any responses. Details of fund responses are provided in Table 1.

Forty managers chose to provide written comments in the open-ended section and raised the following major issues: 22 emphasized the importance of stock indexes and external fund managers frequently noting what they saw as their funds’ passive role in tobacco investments, 10 stressed that tobacco companies were treated like any legal business, four mentioned their fund’s public health concerns and three highlighted additional costs associated with terminating/screening out tobacco investments. Three funds argued that their fund members had not expressed significant concerns about tobacco investments including two funds which claimed to have undertaken member surveys on SRI issues.

### Community study

Letters were sent to 12 000 addresses of which 4859 (40.5%) proved to be businesses or

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### Table 1: Ratings by pension funds of the importance of factors determining their current tobacco investment position (n = 93): percentages

<table>
<thead>
<tr>
<th>Factor/issue</th>
<th>Very important (%)</th>
<th>Fairly important (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advice/assessment from an external fund manager</td>
<td>32</td>
<td>19</td>
<td>51</td>
</tr>
<tr>
<td>Profitability/share price of the tobacco industry</td>
<td>27</td>
<td>21</td>
<td>48</td>
</tr>
<tr>
<td>Potential exposure of the tobacco industry to litigation</td>
<td>12</td>
<td>20</td>
<td>32</td>
</tr>
<tr>
<td>Anti-tobacco views among fund members</td>
<td>11</td>
<td>23</td>
<td>34</td>
</tr>
<tr>
<td>Informal position among key management to avoid tobacco industry investments, no formal policy</td>
<td>8</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Anti-tobacco views in the general community</td>
<td>7</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>Current declining rates of smoking in some countries</td>
<td>7</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Influence of potential new govt. controls over tobacco in the future</td>
<td>5</td>
<td>22</td>
<td>27</td>
</tr>
<tr>
<td>Anti-tobacco views of fund staff</td>
<td>5</td>
<td>12</td>
<td>17</td>
</tr>
</tbody>
</table>

*Percentages may not add to 100 due to rounding.
were ineligible for other reasons. Subsequently, 3503 (49.1%) of eligible subjects consented. Approximately one-third ($n = 1158$) were asked the pension fund related questions. Of these, 852 (73.6%) had current fund investments.

Over three-quarters (77.4%, 95% CI 75.0–79.8%) of all respondents disagreed/strongly disagreed with the statement that superannuation investments in tobacco were ethical including 61.8% (95% CI 53.4–70.1%) of current smokers and 81.7% (95% CI 78.9–84.5%) of non-smokers.

Approximately two-thirds (63.6%, 95% CI 60.4–66.9%) of pension fund members strongly agreed/agreed with the statement objecting to their funds being invested in the tobacco industry. The relationship of five variables, age, gender, education, country of birth and smoking status, with levels of agreement with this statement was assessed in univariate analyses. Age and country of birth had no significant relationship at the 0.25 significance level. Three variables were significantly related: gender (females 70.4% versus males 57.2%, $\chi^2 = 15.90$, $p < 0.0001$), education (more than School Certificate 66.5% versus School Certificate or less 55.0%, $\chi^2 = 9.03$, $p = 0.003$) and smoking status (non-smokers 68.0% versus current smokers 40.0%, $\chi^2 = 38.39$, $p < 0.0001$).

A backward stepwise logistic regression was then performed to determine, whether the three predictor variables had independent effects on agreement levels. All three predictors were statistically significant. Results of the logistic regression are detailed in Table 2. The Hosmer–Lemeshow test ($\chi^2 = 10.32$, df = 6, $p = 0.112$) indicated that the model appears to fit the data reasonably well.

**DISCUSSION**

Despite impressive gains made in tobacco prevention internationally, anti-tobacco campaigners have been warned not to become complacent and reminded that tobacco companies are literally deadly enemies of tobacco control (Tyrrell, 1999). The business sector may shun tobacco companies on public platforms (Chapman, 2005), however, this groundbreaking study shows that when it comes to investing in the tobacco industry, tobacco control has had a negligible impact on Australian pension funds’ policies and practices.

A small minority (6%) of funds indicated both that they had no current investments in the tobacco industry and that they would not consider such investments in the future. Only 2% of funds reported formal bans on such investments. These data support the recently expressed view that almost everyone in the community who has savings for retirement will be *de-facto* investors in tobacco companies (Burton, 2006). Fund respondents’ ratings of factors affecting their current tobacco investment positions and their unprompted, written comments confirmed that, for the majority, tobacco control issues held relatively little currency in their decision-making. The high level of ‘don’t know’ responses highlights the central role of external fund managers and also the capacity of many funds to distance themselves from their tobacco investments by transferring responsibility to external managers. The ‘don’t know’ responses suggest there is little awareness or interest in this issue among many fund managers.

The pro-tobacco investment practices of pension funds stand in contrast to the perception

### Table 2: Results of backward logistic regression for predictors of strong agreement/agreement with the statement objecting to pension fund investments in the tobacco industry ($n = 849$)

<table>
<thead>
<tr>
<th>Variable in order of entry</th>
<th>Parameter estimate</th>
<th>SE</th>
<th>Odds ratio (95% CI)</th>
<th>$p$-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>−2.52</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>0.55</td>
<td>0.15</td>
<td>1.73(1.29–2.32)</td>
<td>0.0002</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>School Cert. or less</td>
<td>0.45</td>
<td>0.17</td>
<td>1.57(1.13–2.19)</td>
<td>0.007</td>
</tr>
<tr>
<td>More than School Cert.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smoking status</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current smoker</td>
<td>0.46</td>
<td>0.07</td>
<td>1.58(1.37–1.83)</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Non-smoker</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
by over three-quarters (77%) of the public that such investments by pension funds are unethical. Australian government policies require all employed Australians including casual workers to contribute to pension funds (Hyunh et al., 2006). As a consequence, a high percentage (74%) of respondents had money invested in pension funds. Even in the situation where tobacco investments were profitable, nearly two-thirds (64%) of fund members objected to their money being invested in the tobacco industry. The finding that only 30% of funds offered an SRI option reinforces the difficulties many fund members have in avoiding tobacco investments. The absence of SRI options exists despite evidence suggesting ethical trusts have slightly superior financial performance compared with their respective industry average indexes (Cummings, 2000). In addition, a recent survey (CPA Australia, 2006) reported that 63% of the public want funds to encourage better social and environmental practices.

The anti-tobacco investment attitudes of the general public and fund members provide a lever for health promotion advocacy on this issue. It has been argued that the tobacco industry is weakened whenever major institutional shareholders sell off their holdings, especially if this decision is publicly acknowledged (Wander and Malone, 2006). The energy with which the tobacco industry has opposed divestment strategies in the past emphasizes both the importance of the issue and the substantial difficulties likely to be encountered (Wander and Malone, 2006).

Although external fund manager advice and profitability were clearly identified as the most salient issues by fund respondents, 34% did rate anti-tobacco views among their fund members as very/fairly important in determining tobacco investment positions. This plus low level endorsement of other nominated factors indicates there is some scope for tobacco control advocates to focus on currently minor concerns already held by some pension funds.

To encourage the development of tobacco share divestment policies, at least four strategies appear worth pursuing. Firstly, pension funds need to be convinced that tobacco products are different from and ‘dirtier’ than, other sources of profit (Wander and Malone, 2006). Comparisons with the alcohol industry may be appropriate, since, in their unprompted comments, a few respondents argued that tobacco and alcohol investments presented the same ethical dilemmas. While acknowledging the seriousness of alcohol-related problems especially neuropsychological diseases and injuries, a crucial point of difference could be stressed, namely that tobacco has no safe level of use (Bjartveit and Tverdal, 2005) whereas the relationship of alcohol intake to total mortality is J-shaped (Poikolainen, 1995). Secondly, the results of this community study should be fed back to funds as one component of an advocacy campaign (Mitchell and Hailstone, 2004). Thirdly, and related to the feedback process, peak health organizations should commence lobbying funds directly and indirectly via fund members. A campaign involving petitions and letters, similar to the multi-agency ‘Go Smoke-Free’ initiative (Osborn, 2004) adopted in NSW to promote the introduction of totally smoke-free licensed premises could be organized. Female fund members could be targeted for special involvement, given their substantially higher support for tobacco divestment. Fourthly, policy championship has been highlighted as critical on this issue (Wander and Malone, 2006). In this context, the funds which already eschew tobacco investments could be asked to lend their public support to the advocacy process. It seems sensible to target the larger funds and their individual board members in this process since these reported higher levels of current tobacco investments. Admittedly, this apparent higher investment rate may be due to greater transparency. Nonetheless, larger funds may serve as market leaders and are likely to have more influence on external fund managers and stock indices. Large public funds and their boards may also prove more sensitive to representations from members, trade unions and health organizations.

The relatively low consent rate in the fund study is an important limitation. However, given the twin problems of lack of interest and commercial/public relations sensitivity, the consent rate seems acceptable. Methods used to increase the response rate were quite rigorous, hence it is unlikely that other researchers could obtain a higher participation rate from pension funds. Furthermore, account data suggested larger funds were more likely to respond. The consent rate in the community study is very similar to those in other Australian smoking studies (Hill et al., 1998; Australian Institute of Health and Welfare, 2005).

In conclusion, it appears the issue of tobacco investments is currently not on the radar of the vast majority of pension funds. A concerted
health promotion advocacy campaign is necessary to encourage funds to align their practices with their members’ views and to accept that, where tobacco investments are concerned, their social responsibility is more important than the pursuit of profits from such a lethal drug.

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Competing interests

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