

Climate Change and Retirement: Navigating the Challenges Ahead

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Climate change can profoundly impact retirees. Rising global temperatures heighten physical risks across many regions, impacting retirees who are more vulnerable due to age and potential health limitations. Heatwaves are a critical concern as they jeopardize older individuals' well-being, exacerbating pre-existing medical conditions and increasing heat-related illnesses. Flooding and storms compound these risks by causing property damage, displacement, and disruptions to vital services, affecting retirees' homes and communities.

In addition to long-term physical risks, government actions to combat climate change by transitioning economies to be low carbon can have meaningful near-term impacts. Government efforts to reduce greenhouse gas emissions by aligning policy with the Paris Accord may result in higher inflation and tax burdens for retirees. Carbon pricing mechanisms such as carbon taxes or cap-and-trade systems can reduce greenhouse gas emissions but increase costs for carbon-intensive industries. Increases in production costs are likely to be passed on to retirees as higher prices for goods and services. Many of the fiscal policies for climate change mitigation will likely require additional tax revenues. Governments may provide subsidies, tax credits, or incentives for renewable energy and climate-friendly sectors. Climate change mitigation and adaptation require significant public investments in renewable energy projects, public transportation systems, and climate-resilient infrastructure. Policy makers may employ mechanisms to ensure equitable distribution of costs for climate change mitigation and adaptation, such as progressive tax structures and policies protecting vulnerable populations. These foundational components of climate action by governments are likely to increase retirees' tax burdens.

In addition to higher costs of living in retirement, the low carbon transition and its uncertainties pose challenges in managing retirement assets. A shift towards a greener economy exposes retiree portfolios to new risks and uncertainties. Regulatory changes, technological advancements, and market dynamics associated with the energy transition introduce volatility and fluctuations in investment values. Retirees and their financial advisors must navigate the changing investment landscape, as performance and stability may vary across sectors and regions. The timeline and pace of the energy transition remain uncertain, making long-term investment decisions for retirement assets difficult. Retirees need to assess investment strategies, diversify portfolios, and stay informed about market trends and regulations to effectively manage these additional challenges.

Consider an investor who believes that the world will transition to a lower carbon economy. They may align their investment portfolio to reflect this view by increasing allocation to green investments such as clean energy, electric vehicles, or "sustainable" technology companies. The investor may also avoid companies in fossil fuel and energy intensive industries. While these investment choices may seem logical given the investor's beliefs, challenges and risks exist. While green investments are aligned with a low carbon transition, they may not yield optimal financial returns if asset valuations are high. Emerging industries that develop to support a low carbon economy may be subject to new regulations and further technological advancements may impact profitability. Avoidance of fossil fuel and energy intensive companies can result in suboptimal investment outcomes, when reducing diversification and income stability from above market dividends generated by these companies. Energy related sectors will likely continue to generate returns for shareholders from its core business of producing and delivering hydrocarbons that

society demands, until it is displaced by sustainable energy solutions. In context of existing demand, emission reduction policies that attempt to reduce fossil fuel supply will likely result in higher commodity prices that positively impact financial performance of the energy sector.

Climate change poses substantial risks and challenges for retirees, impacting their safety, well-being, and long-term asset management. Addressing these challenges requires comprehensive planning, adaptive strategies, and informed decision-making to ensure retirees can effectively navigate the challenges ahead.

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