Pandemic and your PENSIONS

KEEP CALM AND CARRY ON

With pensions being battered in the wake of Covid-19, here is the lowdown on how your retirement savings could be affected and what you can do to lessen the virus's impact on your retirement

BY RUTH JACKSON-KIRBY

Coronavirus has had an impact on global stock markets, leaving many of us fearing for our pensions.

In the month up to 23 March – the day the UK Government announced a lockdown – the FTSE 250 fell by 40%. Over the same period the Nikkei fell 28%; the Dow Jones Index plummeted by 36%; and the FTSE 100 dropped by 32% to levels it has not reached since the financial crisis in 2008. It has been carnage for investors and has left anyone saving for their retirement concerned about their pension pot.

Your pension will be invested in the stock market, so its value will be influenced if stock and shares rise and fall. The good news is if retirement is a long way off, your pension has time to recover from the current market turmoil. It took five years for the FTSE 100 to return to the highs it reached before the financial crisis, which is not very long in pension investment terms.

"It is common for markets to react strongly to news like this, and we are expecting to see continued market volatility in the short term until the full scale of the virus outbreak becomes clearer," says a spokesperson for mutual insurer Royal London.

"While this can be extremely unsettling for our customers, it is important to remember a pension is a long-term investment and its final value will take into account stock-market movements over the whole term of the policy."

These will not be comforting words if you were planning to retire in the next five years. But do not panic. First, things may not be as bad as you think. Second, there are several things you can do to boost your retirement savings.

It probably isn't as bad as you think

If you are approaching retirement, then less of your pension is invested in the stock market than you probably think. And if you are more than five years away from retirement, you stand a good chance of recouping your losses.

"Pension saving is a long game – people can be saving for up to 40 or even 50 years, so it is important not to forget the bigger picture," says Mark Fawcett, chief investment officer of Nest, a provider of workplace pensions.

"Younger savers should comfortably ride out shorter-term fluctuations, and at Nest we take steps to protect members' pots as they get closer to retirement."

The vast majority of workplace pension schemes are invested in lifestyle funds. These funds have two stages: the growth stage and the target stage. In the growth stage, the fund invests with the aim of growing your savings – so primarily in shares. In the retirement target stage, which usually begins five to 10 years before your intended retirement age, the aim switches to protecting the growth you have already achieved. So shares are incrementally sold and replaced with corporate bonds and gilts.

Nest invests its money into lifestyle funds. The fund for people targeting a 2020 retirement has dropped just 0.61% in the current market turmoil because a large proportion of the money held in it is not invested in shares but in bonds, gilts and cash instead.

If you are near retiring, less of your pension will be in the stock market

Wait a little longer to retire

Anyone who has a private pension where they choose their investments themselves may be seeing bigger losses than workplace pensions at the moment. This is because you may not have been moving your investments into less volatile assets as retirement approaches.

One option if your pension savings have taken a significant hit is to defer retirement. Most employers cannot force you to retire on a set date and delaying retirement could give your pension the time it needs to recover.

"If you are approaching retirement and you have just seen your investments fall 30%, it may make sense to rethink your plans," says Tom McPhail, head of retirement policy at Hargreaves Lansdown.

"Cashing in investments at today's lower values means locking in those losses. This may mean having to work a bit longer, perhaps just on a part-time basis, to supplement your retirement income.

"Drawing the natural yield from an equity portfolio in drawdown means you won't be eating into the capital," he adds.

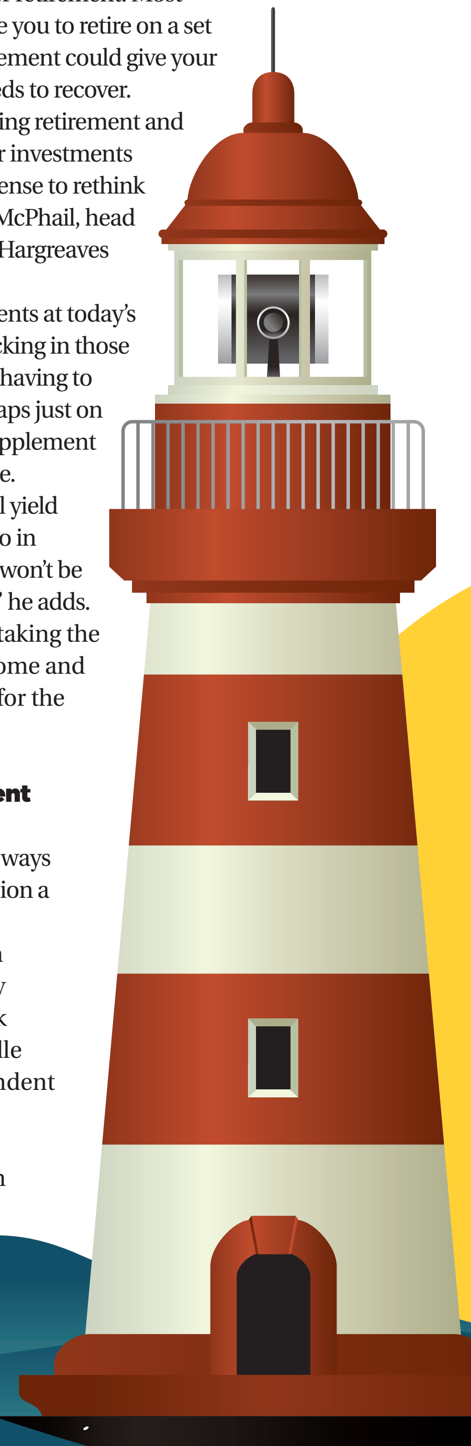
This means simply taking the dividends as your income and not selling any assets for the time being.

Boost your retirement income

There are also severeal ways you can give your pension a much-needed boost.

"Your state pension will not be affected by the downturn in stock markets," says Michelle Cracknell, an independent pension expert.

"If you have not reached state pension



BE ALERT TO SCAMS

Fraudsters are always on the lookout for new opportunities, and the market turmoil caused by coronavirus means many will be preying on pension investors' fears.

Experts are warning that we could see a boom in pension scams.

"In such an environment, unscrupulous scammers will already be plotting ways to take advantage during what for many will be a time of serious financial strain," says Tom Selby, senior analyst at AJ Bell.

Protect yourself from scammers by being extra careful. Do not click on links or attachments in emails; be extremely wary of anyone offering you free pension advice or a free pension review; and don't be rushed into making a decision about your pension.

"Advice is never free, and you are not allowed to access your pension before age 55 unless you have serious health issues," warns Selby.

If you do want to speak to an independent financial adviser about your pension, make sure they are regulated by checking the Financial Conduct Authority register (Register.fca.org.uk).

age, it is a good idea to check that you are on target to get the full amount."

You can do this by getting a forecast at Gov.uk/check-state-pension. You only get the full state pension – currently £8,750 a year – if you have made national insurance contributions (NICs) for 35 years (30 years if you hit state retirement age before 6 April 2016).

If you are not forecast to get a full state pension, you could consider making voluntary NICs to boost your retirement income.

Another option if you are approaching state retirement age is to defer your state pension. When you eventually take it, you will receive a 5.8% boost for every year you deferred it. For example, if you delayed your state pension for two years – and are entitled to the full amount – you would receive an extra £1,016 a year when you do take it. You also get that extra money for life.

"If you are past state pension age but have deferred taking your state pension, you may wish to start taking your enhanced state pension in order to replace income that you were taking from your pension," says Cracknell.

Find forgotten pensions

Now is also a very good time to check you have all the pensions you are entitled to. Research by Profile Pensions found that 25% of people aged under 55 have lost track of at least one pension. With each of those pensions worth an average £23,000, finding one could give your retirement income a much-needed boost.

"Don't act in haste – you haven't actually lost anything yet"

It is easy to search for a forgotten pension. The Government's Pension Tracing Service just needs to know your former employers and the dates you worked there. It will then give you details of any pension provider or scheme associated with your employer when you worked for them. To get started, call 0800 731 0193 or visit Gov.uk/find-pension-contact-details)

You can then get in touch with the pension firms to see if they have a pension in your name. If you find any, make sure the scheme has your up-to-date contact details so you do not lose track of it again.

Rethink annuities

When you retire, you can exchange your pension for an annuity that pays a guaranteed income for life. Now, however, may not be the time to buy an annuity. Not only will the size of your fund have reduced, the coronavirus crisis means yields from government bonds have fallen so the income available on annuities has also dropped.

A year ago, a healthy 60-year-old with a £500,000 pension pot could buy an annuity with an annual income of around £23,500, but now that same person would get around £20,500, according to analysis by Hargreaves Lansdown.

"If you are in your 50s and 60s, buying an annuity today doesn't look great value," says McPhail. "For many people, accepting the uncertainty of the equity markets and staying invested via drawdown, at least until their 70s and perhaps until the current turmoil is over, is likely to make more sense."

No need to panic

The most important thing to do now is not panic.

"Remember you haven't actually lost anything until you've sold," says Moira O'Neill head of personal finance at Interactive Investor (*Moneywise*'s parent company).

"Many of us are feeling emotional at the moment but when it comes to investments, it can lead you into bad decisions. So don't act in haste." mw

RUTH JACKSON-KIRBY writes for publications including *The Sunday Times, MoneyWeek* and *Good Money Guide*

DELAYING WHEN YOU RETIRE COULD BOOST YOUR PENSION INCOME

A 60-year-old with £300,000 worth of pension savings who is planning to retire at 65 could expect a pension income of around £11,800, according to Hargreaves Lansdown.

However, if they were to delay taking their pension by five years, they could boost their retirement income to around £15,500. That could make a great difference to your standard of living, but five years is a long time to stay in your job if you are ready to retire.

Delaying by three years would add £2,000 a year to that 60-year-old's retirement income. Even delaying their retirement by just 12 months would bump their annual income by £600 for life.