COVID-19 update for pension members

Buck briefing for Vaillant Group

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Investment markets have been in turmoil because of the continuing spread of COVID-19. As at the time of writing, stock markets have suffered their biggest falls in 30 years and the Bank of England (BoE) have cut the BoE base rate twice in just over a week from 0.75% to 0.1%.

The volatility in the markets reflects the huge uncertainties around the nature and scale of the challenges posed by COVID-19 and the implications for businesses around the globe. This has been compounded by a developing oil price war and restrictions on global travel and trade.

What should you be doing?

It is important to remember that pensions are a long-term savings plan and generally hold investments that are expected to grow strongly in the long term, with the expectation that there will be some fluctuation along the way. The current situation is extreme, but looking back over history there have been many periods of turmoil that global economies and markets have recovered from.

If you are many years from retirement it is true that you may see significant falls in the value of your investments; however, these are only really relevant when you come to disinvest or change your investments. If there is a long period until this happens, then you may have plenty of time to recoup any losses.

If you are nearer to retirement you may not have this luxury, however, you should note that lifestyle investment strategies (such as the default option in the Vaillant Group Pension Scheme) are generally designed to take this risk of fluctuation into account.

For example, the default option uses a mixture of different asset classes to help diversify risk (broadly 75% in world equities and 25% in bonds when you are more than 6 years from retirement), and Aegon automatically change how monies are invested as people approach retirement to reduce exposure to volatile investments at the time when protecting the value of the pension fund becomes more important than helping it grow (broadly 30% in world equities, 45% in bonds and gilts, and 25% in cash at retirement).

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Useful information:

[Contact Aegon]

[The Money Advice Service]

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If you are invested in the default option (or another lifestyle strategy) you will therefore have some protection as you approach retirement, and although there are no guarantees, you may find that your assets have not fallen by as much as you initially fear. We do note that this automatic switching may sometimes take place at an inopportune time, and hence crystallise a paper loss, however the switches involved are usually relatively small and so the impact of this risk is reduced.

If you are over 55 and considering taking money from your pension plan, please make sure you do not trigger any unintended consequences such as a large tax bill or a restriction on how much you can save into pensions in the future.

Contacting Aegon

We expect Aegon’s service levels to be impacted by COVID-19. In line with Government advice, they’ve now moved to a fully working from home model which means they’ll have no capability to accept inbound calls into their contact centres for a limited period of time. We therefore suggest that you interact with your pension online where possible, and if you haven’t already done so, register for online access.

Conclusion

The default pension investment lifestyle strategy takes a long-term view because ‘knee-jerk’ reactions could potentially do more harm than good. Pension members who are selecting their own funds, or people who plan to change their retirement age, may wish to review their pension plans and consider whether their current choices are still appropriate for them.

However, in the short-term, we believe that most people should seek to avoid taking action that would crystallise a paper loss – unless further losses would cause an immediate and material issue.

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