

The impact of UK and global economic events on your pension

Major economic events both in the UK and overseas can have a big impact on stock markets and the investment environment. In recent years significant events have ranged from banking crises and Brexit to the Covid-19 pandemic, the war in Ukraine and recent political events. In this factsheet we consider the impact of all these events on your pension.

The DC Plan allows members to invest in various funds via a default Lifestyle or Self-select option. The funds generally track global or UK market stocks and avoid high-risk individual companies or sectors. At the start of the war in Ukraine, for example, the funds had an insignificant exposure to Russian investments so they weren't directly impacted by the large downturn in Russian companies and markets.

Lifestyle

More than 95% of DC Plan members are covered by our default Lifestyle strategy. It is designed to reduce the long-term impact of big market variations – these tend to be transient and markets usually recover in the long term. For example, despite the Covid-19 pandemic causing sharp falls in February and March 2020, all funds eventually returned to pre-pandemic levels.

The default Lifestyle strategy is based on moving from high- to low-risk investments as the member approaches retirement. For a member who is more than 20 years from retirement, the fund invests purely in equity (stocks and shares) – the associated volatility and risk are higher and generally result in a higher return. Within 20 years of retirement, the fund automatically starts moving away from equities into a dynamic diversified growth fund – the associated volatility and risk are lower, as is the expected return. Within five years of a member's planned retirement date the process escalates – the fund aims to move into lower-volatility, lower-return investments aligned to your selected retirement option (annuity/cash/income drawdown). The closer you get to retirement, the larger your fund is likely to be, so it's vitally important to focus on reducing the level of volatility.

Our default Lifestyle strategy is generally working as planned, despite the market volatility of recent years. For example, during the Covid-19 pandemic, whereas members closer to retirement saw a relatively small impact on their funds, the impact for members decades away from retirement was relatively larger – and all funds went on to achieve a full recovery. However, there is no guarantee that the lifestyle strategy will always be able to ride out such events. Ultimately the final value of your pension pot will be based on contributions, investment return and date of retirement.

Self-select

Members who go for the Self-select option take on all risks associated with fluctuating fund values and moving money between funds. They are responsible for making investment decisions during or after market events and as they approach retirement. This requires a lot of decision-making, which most members don't want to get involved in. If you're considering this option we strongly recommend that you seek advice from an independent financial advisor.

Retirement

If you're approaching retirement, you may wish to consider how market volatility at the time of your retirement may affect your pension planning and decision-making. We suggest that you seek independent financial advice about this. You have the option to change your retirement date; delay the date on which you access your pension pot; and keep some or all of your pot invested during retirement. We have retained an authorised financial adviser who can provide generic information free of charge, to help you decide what to do – please contact Hymans for details.

Where can I find more information?

All information about the Plan and your Personal Account can be found at

📧 www.affinitywaterpensions.co.uk