Coronavirus, investment market volatility and how it impacts your pension Frequently Asked Questions

Q – Can you explain what investments are?

Investments are a way of making your money grow before you retire. There is a risk and reward balance to investing. Often the higher the risk, the higher the reward. Different types of investments include cash, property, government bonds and equities (the stock market). In a pension scheme you invest your money so that it can increase in value during your working life to provide you with an income when you stop working. If you don't invest your money, it won't grow in value.

Over time, inflation can chip away at the value of your money. For example, a pint of milk, a newspaper and a loaf of bread costs more now than it did 10 years ago. By investing, your money can not only try to keep pace with the cost of living, but it could grow faster and earn you extra money.

Pensions are invested over many years so if your investments grow then over the years the extra money will grow as well.

But don't forget that investments can go down as well as up in value, as we have seen in recent weeks.

Q – How are pension contributions invested?

Contributions paid by you and by your employer are invested in one or more funds. These funds are 'unitised' – that is contributions purchase units and the value or price of those units increases or decreases in line with changes in the underlying value of investment held within each fund - for example cash, property, government bonds and equities.

Remember, you receive full tax relief on your own contributions. So, if you are a basic rate taxpayer each £1 of contribution will only cost you £.80pence and £.60pence or £.55pence if you are a higher rate taxpayer. Your contributions are invested in a tax-free environment and when you come to access your fund, up to 25% can be taken as a tax-free cash sum.

What's more, because your contributions are likely to be paid via 'salary sacrifice' you aren't paying National Insurance contributions on the salary you have 'sacrificed' (in return for an employer pension contribution equal in value to amount of salary sacrificed). This means you will save you a further 12% on your contribution if you earn between £8,632 and £50,000 (2019/20) and 2% on earnings above £50,000.

Q - How likely is it that the coronavirus will impact my investments?

You will have seen recent news about falls in the global investment markets due, in part, to the spread of coronavirus (COVID-19). You may have also noticed changes in the value of your individual account due to movement in the underlying investments.

For investors, which as a pension scheme member includes you, the virus is having a significant economic impact and markets are reacting accordingly. There is clearly uncertainty around how the situation will continue to develop and the downside risk is largely unknown. Investment markets tend to react badly to uncertainty and as such, the general expectation is for markets to remain volatile for some time to come, although the impact could be both positive and negative at different times as market sentiment evolves.

This unpredictability may well continue to be reflected in the value of your pension fund. How much this affects you will depend on your age, which funds your pension is invested in and what other pension savings you may have.

If you are not yet approaching retirement, then your pension is a long-term investment and the markets may have recovered before you need to use it to generate an income.   Financial markets have proved their resilience to global events over many decades including, by way of example, the 2008 banking crisis. In September 2008, the FTSE 100 index fell by 47%. By May 2013, it had fully recovered. In the interim period, members were still receiving dividends/returns.

If you are nearer retirement, you may wish to consider the risk level of your investments, and if it is still appropriate for your retirement plans.

You may wish to consider taking appropriate advice from a professionally qualified adviser, before making any decisions. See below, for details of where you can obtain financial advice.

Q - How much have my investments fallen by?

This will depend very much on the individual investments you have. Some funds will have fallen more than others. The funds you have invested in and the spread of these investments will mean that you may see a smaller or a larger drop in your pension fund.

Equities and other investments are likely to remain very unpredictable throughout the continued potential spread of COVID -19.

Q - How much are they likely to change in the future?

It is not possible to predict this. Over the shorter to medium term investments are likely to continue to be unpredictable. If you are some way from retirement this may help you in the longer term as your current investments will be buying units that have fallen in value, so you get more for your money in the long term. They also have time to recover and grow before your retirement date. However, as always there's a risk that investors may get back less than they invest.

It is also worth remembering that paper losses only become actual losses if you sell assets in a depressed market, such as now. Holding them to allow recovery significantly reduces the risk of losses.

Q – Which fund or funds am I invested in?

Most members are invested in the Legal & General (L&G) Multi Asset Fund, the Plan's 'default investment'. This fund, is made up of investments spread across different asset classes (such as Bonds, Property and Equity) and aims to provide growth during periods of strong market conditions, whilst also protecting fund values in times of market downturn.

If you have chosen to 'self-select' your own funds, the effects of recent market moves will purely depend on the funds you are invested in.

Q – Where can I view and manage my investments?

You can access more information about your plan and find a link to the L&G website, via your microsite: https://www.fdrlimitedpensionscheme.com/home/worksave.

You can manage how your contributions and individual account are invested by clicking on 'Go to your account' and then logging into the 'Manage Your Account' section of the L&G portal. You can change how your individual account is invested, at any time.

Legal & General have also set up a dedicated Covid-19 site. The site provides information and practical tips about the impact on their services and your pension savings and covers many of the areas and topics covered by this FAQ document.

We would suggest that you view the information and guidance available from L&G, before making any investment decisions. We would also suggest that if required, you consider taking advice from a professionally qualified financial adviser. For further information, guidance and advice please see below.

Q – What else should I be thinking about?

It's never too early to start thinking about how you're going to fund your retirement and whether you will have enough to support the lifestyle you want. You can use the two questions below to help you get planning and determine how your retirement savings are shaping up.

What will your sources of income be?
Do you need to save more to meet your retirement goals?

Once you have worked out your sources of income and estimated how much you're likely to have, consider how much you'll need to afford the lifestyle you'd like in retirement. If your income doesn't match up with the lifestyle you want, here are a few ways you could influence your savings:

Contribute more to a pension: you could consider making additional voluntary contributions to the Plan;

Consider ISAs and other savings vehicles: as well as saving into your pension you can also save into an ISA or open a private pension.

Deciding when to retire: you could think about working for longer, which would give you more time to reach your savings goals. You can alter your 'Target Retirement Age' by contacting Legal & General directly. Note that by doing so may influence how your pension pot is invested, if you are invested in the default investment strategy, or one of the roll down paths, as extending your Target Retirement Age may mean the impact of lifestyling' increases the exposure to riskier investments.

As noted above, Legal & General's portal includes a range of information, tools and calculators to help with your retirement planning

Q - I'm close to retirement – what should I do?

Recent market volatility means that you may have seen your individual account fall in value at a point when you may need to generate an income from those savings.

If you are in the last three years before your reach your Target Retirement Age (TRA) you may have received a communication from L&G suggesting that you select a specific ‘roll down path’ aligned to how you intend to start accessing your benefits – by taking cash, purchasing an annuity (guaranteed income for life) or by using drawdown. You can ultimately choose a combination of all three. If you have selected one of these options your investment in the Multi-Asset Fund will be switching to lower risk funds as you approach your ‘Target Retirement Age’ (age 65 unless an earlier or later age has been selected) and this will reduce the exposure you have to riskier investments as retirement approaches, with the aim of preparing your savings for retirement. This may help to protect those close to retirement from some of the worst of the market falls. However, it may also mean that savers miss out on gains should markets rebound.

If you’re about to retire and you were planning to purchase an ‘annuity’ (a pension), you may face additional challenges as the recent reduction to the Bank of England base rate has meant that annuity rates have also fallen. Putting aside changing fund values, this means your individual account will purchase a smaller pension with the same amount of money.

If you are close to retiring, you may also wish to consider whether and how you can delay taking benefits or the extent to which you can use other assets which have not suffered such losses. For example, members who are entitled to defined benefit pensions schemes (also known as final salary schemes) are not affected by this situation.

If you’re about to retire we’d encourage you to speak to a professionally qualified financial adviser about your options. For further information, guidance and advice please see below.

Q - Should I wait to take benefits, or take benefits now?

This will be something you need to think about considering your investments and current financial situation.

You can only access your individual account if you are aged 55 or over. Withdrawing savings following a sudden downturn can be tempting and doing so may prevent further losses if markets continue to fall. However, this strategy could also mean you miss out on gains if markets rebound. Timing market withdrawals can be difficult to get right, so we recommend that you speak to a professionally qualified financial adviser in the first instance, for questions about your investment or disinvestment decisions.

Q - What happens if I die before I take my benefits?

If you die before you start to take benefits and before age 75, the full value of your fund at the time of your death will be paid out. To make sure the payment is made to the people you would like to receive it, please take the time to complete the Pensions Beneficiary Nomination form. You can find this on the Scheme’s website, under ‘Helpful Resources’ and the ‘Document Library’ section. Legally, the final decision about who receives the money must be made by Legal & General but, unless there are exceptional circumstances, the money will normally be paid to the people you nominate. It is also important to make sure you keep your nomination up to date should your circumstances change (for example, on marriage or divorce).

Q - What should I do if I receive a call or email about my savings that I haven't asked for?

Unfortunately, the current market uncertainty makes financial scams more likely. It doesn't matter if contact is made by post, email, text or telephone – you should be increasingly wary of anything pension-related that arrives unexpectedly. If you're in any way uncomfortable, the safest thing to do is to hang up the phone, delete the message or ignore the mail. Be careful about using the 'unsubscribe' option in emails as this could alert fraudsters that they've got the correct contact details for you.

If you do decide to act on a letter or speak to someone who has called you about your pension, it's important to remember that you're in the driving seat. You can take control of the situation. However,

Don't:

- give out your personal information if contacted unexpectedly;
- be rushed into anything, take time to think;
- sign anything unless you fully understand what you're signing up to, and
- let anyone into your house unless you're sure they're genuine.

Do:

- research any firm that contacts you;
- check the FCA website and warning list (see below);
- get yourself regulated advice from a professional adviser;
- take your time over financial decisions, and
- assess the tax implications of any decision you make.

Q – Where can I get further information, guidance and advice?

Pension Wise and The Pensions Advisory Service

To assist members approaching retirement, 'Pension Wise' is a free and impartial service available to help you understand what your choices are and how they work. Currently, those aged 50 or over with money purchase pension savings may use this service. Whilst you will not be provided with advice, you will receive information tailored to your specific situation. The service also covers other financial matters like debts, savings and State benefits. Information is available from the Pension Wise website. Alternatively, you can discuss your retirement options over the phone with The Pensions Advisory Service (0300 123 1047) or face-to–face with the Citizens Advice Bureau.

Pension Wise and The Pensions Advisory Service both form part of the Money and Pensions Service. The Money and Pensions Service website provides free and impartial information on choosing a financial adviser and links to details of financial advisers in your area. The website can be accessed at: www.moneyandpensionsservice.org.uk.

Accessing your funds at retirement is an important financial decision and we would encourage you to seek professional financial advice in addition to obtaining guidance from Pension Wise. Make sure any adviser is approved by the Financial Conduct Authority.

This can be verified on the Financial Services Register Financial Conduct Authority Register.

Capita Partners

Capita has also partnered with a number of professional financial advisers that can help you understand your options and provide advice where required. Should you wish to take advantage of this service, please visit the Managed Retirement Services section of the pension microsite:

https://www.fdrlimitedpensionscheme.com/home/worksave/managed-retirement-services

Important Notes

Whichever investment strategies or investment funds you choose, it is important to remember that the past performance of any fund or investment is not necessarily a guide to how that fund or investment may perform in the future and that the value of your investments can fall as well as rise. A pension fund is intended to be a long-term investment, and there can be no guarantees regarding the level of retirement benefits the Plan will provide. If you are unsure as to the suitability of a strategy or fund you should seek professional financial advice.

We would encourage you to regularly review your investments and make changes when you need to. For example, as you move nearer to retirement it is usually a good idea to move your money into safer, lower risk funds. This is because if markets fall significantly at this point, your funds may not have time to recover before you retire.

Please note whilst our intention is to provide you with information and guidance to enable you to make informed decisions, neither the company nor Capita, can provide you with personal financial advice or investment advice. The content of this note should not be interpreted or construed as such and we can't be held responsible for the consequences of any decisions (investment decisions or otherwise) that you make. We are also unable to recommend a financial adviser.

May 2020