How to talk to members in a downturn

QUIETROOM
thinking / writing / training

People are worried about Covid-19. They're also worried about what it means for their savings, and especially their pensions.

Too many sites have bland information about the 'long-term nature of investing'. We thought it might help to have some answers to the questions that members are likely to be asking. These questions and their answers cover both DB and DC pensions.

Please feel free to use, adapt, edit and rewrite, to help you talk to your members. We hope they help.

How will Covid-19 affect my pension?

Everyone's worried about Covid 19. As it's affected stock markets, it is completely understandable that you should think about how it might affect your pension.

In the middle of March stock prices fell. Since then, prices have gone up again, but overall the average price of shares is lower now than it was at the start of March. It's normal for shares to go up and down in value, but these recent changes were bigger than we'd have expected under normal circumstances.

So, what does this mean for your pension? Well, it depends on the type of pension you have, whether you're already getting an income from it, and if not, how long it is until you plan to retire.

I am in a Defined Contribution (DC) Pension scheme – where I build up a pot of money that I can then use to give myself an income when I retire

Your pot is probably worth more than the money you've saved into it

If you save into a workplace DC pension scheme, your employer pays money in too. You also get tax relief from the government. So, there's a lot more money going in there than just the money you're putting in. Because of all this extra money going into your pot, stock market falls would have to reduce its value by a lot before there was less money in there than the amount you put in. Current stock market falls haven't been nearly big enough to mean this happened.
In other words, your pot is almost certainly worth more than the amount of money you've put in.

Some of your pot is likely to be invested in things that aren't affected by stock markets

The money in your pot is usually invested in lots of different things. For example, as well as investing in a wide range of stocks and shares, you might also be investing in government bonds and in property. The value of these investments hasn't been affected in the same way as the value of stocks and shares has been So, overall, the value of your pension pot may not have been affected as much as you think. That doesn't mean you shouldn't think about your savings. It does mean that it's worth planning what you want to do, rather reacting suddenly because of worries about coronavirus or share prices.

If you're close to retiring, lifestyling might have reduced the effect that stock market changes have had on your pension pot

Most workplace DC pension schemes use something called lifestyling. Lifestyling changes the way your pension pot is invested as you get closer to retiring. Instead of the emphasis being on making your pot grow, the emphasis becomes protecting growth you've already achieved. To do this, about 5 to 10 years before the date you're expected to retire, lifestyling starts moving your investments out of stocks and shares and into bonds and cash. As a result, changes in the stock market will have had less effect on your pot's value than if you were early in your working life.

If you're not close to retiring, there's time for the value of your pension pot to recover from a dip in value.

If you are more than 5 to 10 years from retiring and your pot has gone down in value over the last few weeks, there's lots of time for it to go up in value again before you need the money. In the past, sudden falls in stock markets, like those we've seen recently, have been followed by periods of growth, when markets recover. So there's a good chance that its value will increase before you come to need it.

Can I stop saving into my pension scheme?

You can stop saving into your work-based pension scheme or change the amount you save. You may be able to do this straight away, or you may have to wait, depending on the rules of your scheme.

However, before you stop saving, it's worth thinking about the free money you'd be missing out on. If you stop saving, there's a very good chance that your employer will stop putting money in too. You will also stop getting the tax relief you get from the government. So you would be missing out on a lot of free money. If you stop saving now, even if you start saving again later, you'll never get back the free money you've missed out on.

So, while you can stop saving into your pension, it's worth thinking carefully before you do. Ideally, speak to a financial adviser.

Should I change the way my money is invested?

If you want to make your own investment decisions, you usually can. But members who choose their own investments usually do less well than those who let the scheme choose for them. So, while a fall in stock markets like this can make you want to take control and decide for yourself, it's worth thinking about whether you're really ready to make your own investment decisions.

If you're letting the scheme decide how your money is invested, it will usually spread it across lots of different types of investment. So, as well as investing in stock and shares it might also invest in things like government bonds and property. As you get closer to retiring, these investment options will often automatically change the way your money is invested. This is called lifestyling. Lifestyling reduces the risks the scheme takes with your investments as you get closer to retiring by moving to investments that are less like to fall in value, accepting that this reduces the potential for growth too. If you choose your own investments, you won't benefit from this spreading of investments or from these automatic changes that happen as you get closer to retiring.

Finally, if you sell your investments now and use the funds to buy other investments, you will be selling those investments when they've fallen in value. Few people would choose to sell a house when there's been a fall in house prices, so it's odd that someone would sell their investments when they've fallen in value. This recent fall in the value of your pension pot hasn't necessarily happened because you've been investing in the wrong things – lots of stocks and shares have fallen in value because of worries about coronavirus. So, while there is no guarantee, there is a good chance that in 6 months, 2 years, or 5 years' time, as things get better again, so will the value of your investments.

I am in a Defined Benefit (DB) Pension scheme – where the amount of pension I get is based on how much I earn and the number of years I've worked

Whether you're getting an income from this type of pension right now or will be in the future, the amount you get isn't affected by stock markets and share prices.

I am in a Defined Benefit (DB) Pension scheme – but I also make Additional Voluntary Contributions (AVCs)

Whether you're already getting an income from your DB pension, or will be in the future, the amount you get isn't affected by stock markets and share prices.

It's unlikely that all your AVCs are invested in stocks and shares

If you're building up a pot of money alongside your pension by making AVCs, the value of this pot might be affected by changes in the stock market. However, most AVC pots are invested in a range of different types of investment. So, while you might be investing in stocks and shares, you might also be investing in government bonds and property. If this is the case, it will have reduced the effect that changes in the stock market have on the value of your pot. This spreading of investments is often done automatically when you set up AVCs.

If you're close to retiring, lifestyling might have reduced the effect that stock market changes have had on your AVC pot

Lots of AVCs also use something called lifestyling. Lifestyling changes the way your AVC pot is invested as you get closer to retiring – instead of the emphasis being on making your pot grow, the emphasis becomes protecting growth you've already had. To achieve this, about 5 to 10 years before the date you're expected to retire, it starts moving your investments out of stocks and shares and into cash and bonds. If your AVC pot is invested with lifestyling and you are close to retiring, changes in the stock market will have had less effect on the value of your pot.

If you're at least 5 years from retiring, there's time for the value of your AVC pot to recover

In the past, sudden falls in stock markets, like those we've seen recently, have been followed by periods of growth, when markets recover. So, there's a good chance that its value will increase before you need it. If you have 5 years, there's a very good chance that your pot will recover and even grow to more than you had before. If you're more than 5 years away from retiring, those chances get even better.

hello@quietroom.co.uk
+44 (0)20 7970 6011
40 Bowling Green Lane
London EC1R 0NE
www.quietroom.co.uk