Your workplace pension and stock markets

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Inflation. Budget deficits. Oil prices. Recession. Deflation. Political turmoil. Currency chaos. Boom and bust. War.

All these events – and more – can unsettle stock markets. And in the short term they can also affect the value of money held in your workplace pension.

Today's 24-hour cycle of news and information can sometimes make things look worse than they really are. Relax, and read on.

For more than 70 years, workplace pensions have invested in company shares, bonds and property to help people like you enjoy a financially secure retirement.

The reason why pension schemes make investments in company shares and bonds, rather than leave your money on deposit is because inflation can – and will – reduce the value of your pension savings over time. That's why we put your money to work in stock markets.

Over the short term, stock markets will rise and fall in response to each day's trading. Over the long term, your workplace pension is designed for decades of investment ups and downs, not for this week's news headlines.

Taking the long view, there is one hard truth about investing: nobody knows when stock markets will rise or fall.

We'd all like to find a way around the fact that stock markets wobble from time to time, but that goes with the territory. And if you think that there's a way around that, you are likely to be disappointed.

With investing, the simple fact is that past performance is never a guide to the future and your money is at risk. What's also at stake is that you could get back less than you put in.

Your pension money and investment cycles

Here's the UK's FTSE 100 stock market index, from 1984 to 2018. Often called the 'Footsie', it's the one you see and hear mentioned on the radio, television, newspapers and on the internet. It measures the UK's 100 largest companies by their current value, moving up and down from minute to minute, hour to hour on days when people buy and sell shares. Many of these Footsie companies are household names, such as BP, Sky, Royal Mail and Tesco.

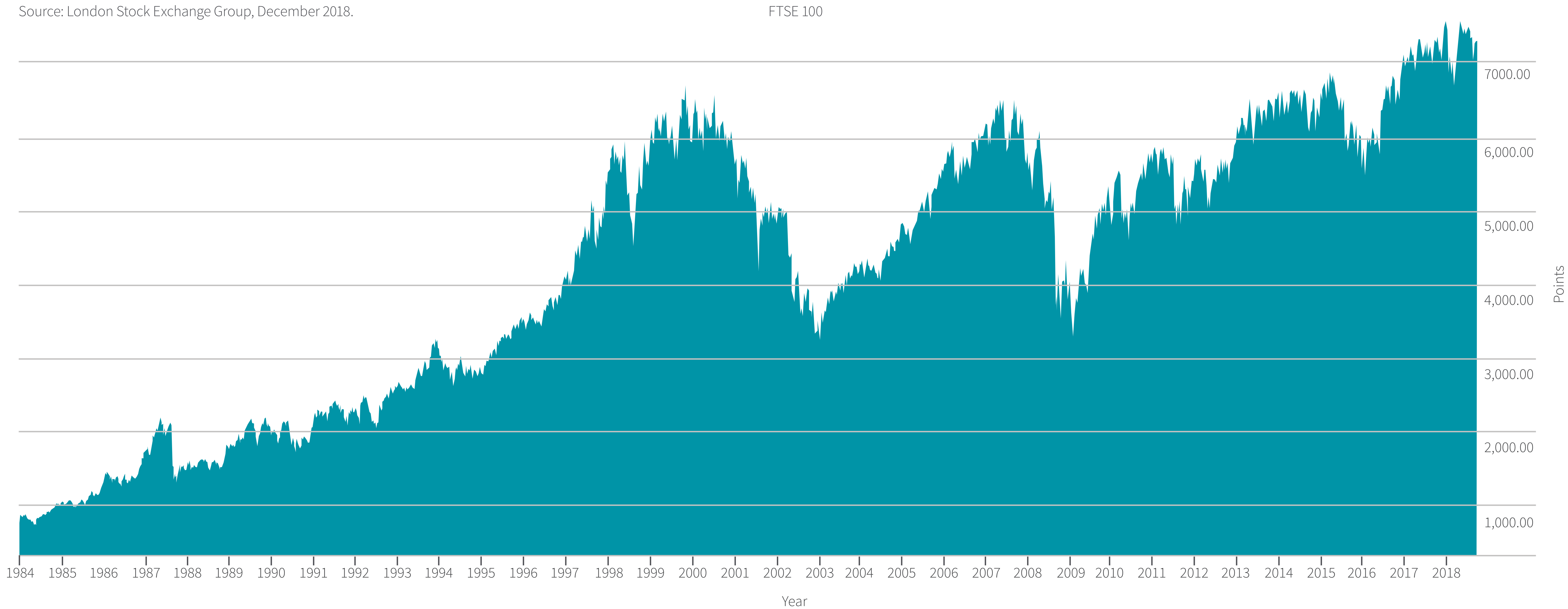
The first thing you'll notice about the FTSE 100 graph is the shape: it resembles a mountain range with peaks and deep valleys. Steep ravines follow several of the peaks, and then from the valley floor it rises to hit new highs. We call these 'investment cycles' and they can be influenced by many different things, such as: good – or bad news – about specific companies; changes in the value of the pound and other currencies; and political uncertainty.

Do people like it when the value of their stake is suddenly worth less than it was the day before? It's unlikely, but it's all part of investing and this is simply what markets do. The shape you see here is the type of path your pension money takes as it crosses this mountain range from month to month and from year to year as you approach retirement.

If you look closely at the graph, you can see several occasions when the market has fallen and then recovered. But nobody knows exactly when this will happen, and if you had that information in advance, you wouldn't be reading this right now.

One of the advantages of investing in one of these dips is that shares are cheaper than at the peaks. If a company is a successful business and represents good value, this can be good news. In this situation, you simply get more shares for your money than when share prices are higher.

Source: London Stock Exchange Group, December 2018.



A reminder about how we manage your money

We manage your money with regulated investment professionals in collective investment funds

Investing always carries a degree of risk and it is impossible to control huge falls in stock markets. That would be like trying change the weather. But when we invest your money, our governance team ensures that your money is managed by investment professionals under FCA (Financial Conduct Authority) regulations.

We invest your money in what are known as collective investment funds. As the name suggests, your money is pooled with that of other workplace pension scheme members and the professional fund managers will use it to buy investments such as company shares, bonds and property.

Teams of investment specialists focus on creating funds which are built to last for decades to come, such as those in which we invest your workplace pension money.

We spread your money across different investments

Although this approach doesn't provide any guarantees, the fund managers spread your money across a wide range of diverse investments.

The logic is that if one investment is a poor performer, the others can make up for it. In short, we don't put all your eggs in one basket, which is known as diversification.

And we have investment programmes for people at different stages of their working lives, which can move money into lower risk investments as people approach retirement.

We also invest your money in fixed interest assets, and here's why

There is more to investing your pension money than company shares. We also invest in fixed interest assets, which are less risky than shares, although they can also rise and fall in value. Fixed interest assets include government and corporate bonds. These are loans issued by the government or a company in the financial markets to boost their finances. Government and corporate bonds pay the holder of the bond regular fixed interest and the full value of the bond when it matures.

Government bonds issued by the UK government are referred to as 'gilts'. If a government or company defaults on the loan, then the interest will not be paid. Gilts are regarded as less risky than corporate bonds as the UK government has a good credit rating. For this reason, it is believed to be in a sound enough financial position to be able to repay the money it has borrowed and honour its debt repayments.

Fixed interest assets make up a bigger part of your workplace pension's default investment programme as you approach retirement. To remind you, a default programme is where your pension money goes when you're not interested in making investment decisions yourself. One thing is certain: you don't need a big drop in the value of your pension's investments just before you're ready to retire. And we believe that our default investment programme can help to guard against this by investing in fixed interest assets.

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