A million older workers face new pensions misery: Bond rout wipes a third off funds - just as retirement looms

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- **An estimated £15bn have been invested in 'lifestyling' bond funds**
- **More than £4.5bn has been wiped from the value of older workers' pensions**

By PATRICK TOOHER FOR THE MAIL ON SUNDAY
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The retirement plans of up to a million workers lie in tatters as the recent collapse in supposedly safe government bonds battered the value of their pension pots.

Most affected are those who took out workplace pensions in the 1990s and 2000s, or who paid into individual stakeholder plans over the past two decades with household names such as Legal & General, Fidelity Aegon, Aon and Scottish Widows.

Their pension pots are automatically moved to so-called 'lifestyling' funds, typically five years before retirement age.

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These funds invest in fixed-income investments – including bonds – and are meant to be less risky than other, more volatile asset classes such as equities.

But the steep rise in interest rates has pushed up the yield on government bonds, known as gilts, causing bond prices to fall sharply.

The sell-off accelerated after ex-Chancellor Kwasi Kwarteng's disastrous mini-Budget in September until the Bank of England stepped in with a £19billion bailout.

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But gilts were still one of the worst performing major asset classes of 2022.

It means more than £4.5billion has been wiped from the value of older workers' pensions, with an estimated £15billion invested in these lifestyling bond funds, according to investment platform AJ Bell. As a result, around 850,000 workers have lost an average of 32 per cent this year.

'The last year has been a bit of a stinker in the markets, and a big sell-off in bonds has led to some pretty horrible performance numbers for pension funds,' said Laith Khalaf, head of investment analysis at AJ Bell.

'The irony is that these funds have included bonds because they are traditionally seen as safe assets, but this idea has been confounded over the last 12 months.'

> *'Older workers have been let down by the Bank of England and their pensions provider*
>
> **Ros Altmann**

This has led to renewed criticism of lifestyling funds and their default, one-size-fits-all investment approach, which shifts pensions savers out of equities and into bonds as they approach retirement, regardless of individual circumstances.

'Older workers have been let down by the Bank of England and their pensions provider,' said former Pensions Minister Ros Altmann.

'Lifestyling funds are totally unsuitable for many people. They don't fit their lifestyles any more but nobody asks the customer. Chickens are coming home to roost.'

The latest pensions shock follows the one that engulfed final salary schemes during the recent gilts crisis when the use of liability-driven investment (LDI) strategies revealed dangerous levels of hidden leverage in the financial system.

Unlike final salary plans – which pay an employer-guaranteed income at retirement – lifestyling funds form a vital part of defined contribution (DC) schemes, where the individual takes all the investment risk.

Pensions Regulator chief executive Charles Counsell last month told MPs investigating the LDI debacle that there was 'an impact on DC schemes as well'.

'If you're an investor approaching retirement and in a lifestyle scheme that has largely gone into bonds, the value of their scheme will have come down,' he said.

'People will start to see this in their annual statements, if they haven't already,' Counsell added.

He urged members of defined contribution schemes to 'think carefully' about their retirement planning.

AJ Bell's Khalaf said designing a default fund was 'a thankless and difficult task'.

He added: 'You are choosing just one fund for hundreds or potentially thousands of people in the workplace, all with different attitudes to risk and varying financial circumstances. Invariably, this leads to default funds simply being the least worst option.

'Pension savers should remember that in almost all pension schemes, they can invest outside the default fund, in a fund that is more appropriate to them.

'Obviously, this involves rolling up your sleeves and doing a bit of homework, but the reward on offer is a wealthier retirement.'