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Investors look for safe havens as pension funds tumble

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By Harvey Jones

MANY investors will be looking for ways to protect their capital against stock market volatility, as new figures show Covid-19 has wiped 15 per cent off the average pension fund.

This is less of a problem for those who retired before April 2015's pension freedom reforms, as they were obliged to lock into an annuity, which pays a guaranteed income for life and is unaffected by the crash.

However those who have taken the opportunity to leave their pension invested in the stock market through income drawdown may face a big hit, with some forced to take income from a depleted pot.

There are a number of ways to protect your capital from future market swings but they have costs as well as benefits.

ANNUITIES

Annuity sales plunged after pension freedom reforms but Aviva, Canada Life, Hodge Lifetime, Just Group, Legal & General and Scottish Widows still sell them. The attraction is that you get a guaranteed income for life, no matter how long you live. The downside is that returns are poor as interest rates collapse.

Today is not a good time to cash in your shrunken pension and use it to buy an annuity, as you will get on average 18 per cent less income than at the start of the year, an historic low, according to Moneyfacts.

Head of pensions Richard Eagling said: "A 65-year-old buying a lifetime annuity with £41,388 now gets just £1,663 a year."

A fixed-term annuity could work as a temporary fix, as this pays a guaranteed income for a limited period, say, three, five or 10 years.

LV= managing director of savings and retirement Clive Bolton said: "They may appeal to cautious retirees looking to pause the big decisions, because they are not comfortable with today's stock market risk but do not want to commit to a lifetime annuity."

Look for a plan that allows you to exit without penalty, but returns may be only slightly better than cash.

CAPITAL PROTECTED PRODUCTS

You can buy investment funds that are specifically designed to protect your capital during rocky markets.

Laura Suter, personal finance analyst at investment platform AJ Bell, said they may tempt investors who fear further market falls or are worried about a recession, but your capital still faces some risk.

She named four investment trusts run with the aim of preserving capital: Personal Assets Trust, Ruffer Investment Company, RIT Capital Partners and Capital Gearing. "During the sharp market falls in March, Personal Assets Trust and Ruffer both delivered a positive return."

Capital Gearing fell just 2.8 per cent, while RIT fell 4.2 per cent, well below the 15.1 per cent loss on the FTSE All-Share. The trusts typically reduced losses by investing in safer assets such as cash, gold and bonds, as well as shares.

Of the four, RIT has performed best over 10 years, rising 95 per cent, followed by Capital Gearing (70 per cent), Personal Assets (67 per cent) and Ruffer (31 per cent).

However anyone who withdrew money at the height of the crash lost out. As demand fell, these investment trusts traded at a sharp discount to their net asset value, although this has since closed.

Alternatively, consider "smoothed" funds, which aim to protect investors from stock market bumpiness. Your

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