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How to supercharge your pension when you hit 50

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Life begins at 50, or so they say, but whether you plan to keep working for decades or hang up your tie at 55, it's a good time to take stock of your retirement savings.

With just five years to go until your personal pension is unlocked, it is important to make sure it is invested wisely. The way you invest will be largely determined by when and how you plan to draw on those savings.

It is important to have a clear plan of what you want to achieve. Set out a budget for what you will need to live on to enjoy your retirement. Take into account all your pension pots, savings and other sources of income, such as the state pension. That should give you a good idea of whether you are on track or whether you need to step up your contributions.

Laith Khalaf of AJ Bell, the stockbroker, said those who planned to take their tax-free cash at 55 but leave the rest untouched for 10 years should continue to look for investments with long-term growth potential but recognise that their risk appetite was probably diminishing.

It may be time to reduce exposure to riskier investments, such as in emerging markets and smaller companies, while adding some bond exposure, he said. The easiest way to do that is through a multi-asset fund, which offers a mixed portfolio of shares, bonds, cash and sometimes property and gold.

However, Dan Lane of Freetrade, a stockbroker and personal pension (Sipp) provider, warned against taking too risk-averse an approach, as many investors do when they start to near retirement.

"A lot of investors choose to increase the amount of bonds they hold in their 50s, concerned that a last-minute stock market dip would punish their pot. But you do still need enough of a growth engine there to power you through the line and provide capital growth even in retirement," he said.

The relationship between growth investments, dividend income and capital preservation becomes very important in your 50s, according to Mr Lane. Dialling up the growth earlier on via investments in stocks should give way to a focus on income and capital preservation as you collect your gold watch and hand in your access card.

“You will still need growth but protection becomes incredibly important as soon as you have no other income sources,” he said.

Investment trusts (funds listed on the stock market) that tick these boxes include Personal Assets and RIT Capital Partners, according to both Mr Lane and Mr Khalaf.

Personal Assets was able to provide investors with a safety buffer as the pandemic pulled the rug out from under the market in March last year. This was thanks to a healthy mix of American tech leaders, gold, consumer stocks such as Diageo and bonds, Mr Lane said

“That diversification and focus on capital preservation meant a much lower fall for its investors, relative to the plummeting British stock market index, the FTSE All-Share,” he added.

There may be less of a chance to shoot the lights out but that protection against losses becomes increasingly valuable as investors near retirement, he said.

RIT Capital Partners gives investors access to listed and private stocks, hedge funds, commodities, government bonds and property. It did fall initially in March last year but snapped back much more quickly than the broader market and has continued impressively since, Mr Lane said.

“The real draw here is in the full extent of the portfolio. We never can tell where the next shock will come from so having such wide diversification all in one place can be a prudent way to prepare for the unexpected,” he added.

The JP Morgan Multi-Asset Growth & Income trust could be another winner for those in their 50s, Mr Lane said. The fund is heavily invested in consumer staples and healthcare companies in America. It yields 4pc from a quarterly dividend, which will be attractive to anyone who aims to move into retirement and turn growth into income. Before retirement, the dividend can simply be reinvested in additional shares to boost growth.

Other income-producing funds include Evenlode Global Income and Threadneedle UK Equity Income. These two are "useful tools for investors in this position", Mr Khalaf said. Again, income can be reinvested for growth if you choose the "accumulation" version of the funds.

Hitting 50 doesn't trigger dreams of retirement for all, so those who decide not to touch their pension until they turn 65 or older still have some time to play with. A global growth fund such as Fidelity Global Special Situations or Monks investment trust will be appropriate for those in this position, he said.

"As you progress through your 50s you might consider dialling down risk in your portfolio, making use of multi-asset funds such as Personal Assets and RIT Capital Partners and reducing exposure to volatile areas such as emerging markets and smaller companies," he added.

"Later on in your 50s you might also start to gradually build up some cash in the pension ready for the point at which you withdraw your 25pc tax-free lump sum."