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Impact of market volatility on your pension

Following the recent mini-budget announcement, you might have seen the subject of pensions in news headlines and be concerned about the impact this could have on your own pension.

As a reminder, your benefits from Scheme are Defined Benefit (DB) and don't depend on investment performance. The pension you'll receive at retirement is worked out using a formula set out by the Scheme rules and is based on your length of service in the Scheme and your salary at date of leaving. This increases until your retirement date and isn't immediately affected by the current situation.

Having said that, the Trustee is responsible for the underlying investment strategy and must make sure there's enough money in the Scheme to pay pensions now and in the future.

If there isn't sufficient money, the Trustee can ask the Company to make further contributions to the Scheme.
In the unlikely event the Company becomes insolvent, the Pension Protection Fund (PPF) should safeguard your benefits, at least in part. You can find information about this on the PPF website: www.ppf.co.uk

These recent developments might have caused fluctuations in the Scheme's funding levels, so the Trustee will continue to carefully monitor what's happening in the markets.

What's happened?

Many DB pension funds match the future cost of the pensions they need to pay to members by buying government bonds (or gilts), sold by the government to fund its future spending plans.

During the recent announcement of the mini-budget, the government confirmed it would be making substantial tax cuts, appearing to be funded primarily by borrowing in the gilt market.

Many investors were concerned about the future funding of UK government tax cuts and the level of government borrowing. This led to investors demanding a much higher return for investing in government bonds, causing their value to drop sharply. As a result, many DB pension funds were forced into selling these assets, leading to even greater falls in bond values.

The Bank of England (BoE) announced it would buy up to £65bn of government bonds to help stabilise bond prices, restore calm to the investment markets and make sure there's no immediate risk to the ongoing viability of schemes.

The support from the BoE is scheduled to end on 14 October, as it was always intended to be a temporary and targeted effort to help maintain financial stability as opposed to anything longer term. The BoE remains committed to monitoring the situation and doing whatever is needed to ensure there's no collapse of the bond market.

Pension schemes have been busily taking actions to reduce risks to ensure they can continue to meet their obligations to members.