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Most of the big funds have made dreadful returns

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Almost 70 per cent of Britain’s biggest equity pension funds have lost savers money in real terms over the past decade.

Seventeen of the biggest 25 funds have returned less than the FTSE All-Share index over the past three, five and ten years, data compiled by adviser Hargreaves Lansdown for The Sunday Times shows.

That means that a staggering £17 billion of pension savers’ money is languishing in dismal funds. They have increased by an average of only 22 per cent since 1998, while inflation has run at 33 per cent, meaning investments are losing money in real terms.

In contrast, the biggest 25 UK equity unit trusts have returned 64 per cent over 10 years, figures from Lipper, the financial data firm, show. The top ones — Fidelity Special Situations and Black Rock UK Special Situations — have grown 193.5 per cent and 151.1 per cent, turning £10,000 into £29,347 and £25,106 respectively.

In contrast, the worst performer of the 25 biggest pensions in the ABI UK All Companies sector, Canada Life UK Equity, has made just £349 on a £10,000 investment.

“Pension investors should review their holdings and get rid of the rubbish,” said Laith Khalaf, a pensions analyst at Hargreaves Lansdown. “If they don’t, they will miss out on a more affluent retirement while paying their fund manager for doing a half-baked job. There are some good insurance company-managed pension funds — but there is also far too much dross.”

Canada Life UK Equity — into which retirement savers have ploughed £308m — has returned a meagre 3.5 per cent over the past decade. The £512m Canada Life Equity fund is also among the five worst performers — growing by 5.9 per cent over a decade.

Winterthur’s equity fund, with £332m invested, has grown by just 5.3 per cent, while Abbey Life’s equity fund — the largest of the five with £1.5 billion invested — has returned 8.6 per cent over 10 years.

The second largest, Phoenix Equity, at £1 billion, has returned 14.5 per cent since 1998.

Just four of the 25 biggest funds in the IMA UK All Companies sector, 16 per cent, have underperformed the All-Share over the same three, five and ten-year time frames.

None of these is managed by investment firms. Two are insurance company funds — run by Scottish Widows and Prudential — and the others are run by banks, Halifax and Santander.

Other than poor performance, cuts in company dividends are also hitting retirement savers' funds, as a chronic shortage of cash forces some of Britain's best-known companies to reduce dividends paid to shareholders — or scrap them completely.

Publishing group Johnston Press and housebuilder Taylor Wimpey have scrapped their interim dividends, while fellow builder Bovis has cut its from 20p to 5p — a reduction of 75 per cent.

Financial firms have also been hacking back their dividend payments after reporting falling profits and huge write-downs. Halifax has cut its dividend by 63 per cent and Royal Bank of Scotland by 41 per cent.

A large part of pension-fund growth comes in the form of dividend income. If you invested £100 in the stock market 109 years ago — the furthest back the Barclays Equity Gilt study goes — it would be worth £209 today — a figure that balloons to £25,277 with dividends reinvested.

Over just one year, if you received a dividend yield of 4.1 per cent — what the FTSE 100 index currently yields — you would net £2,050 on a fund of £50,000.

Reinvesting that money and achieving an annual investment return of 7 per cent would boost that sum to £7,932 over 20 years, producing an extra £550 per year of retirement income, based on current annuity rates, said financial-services group Killik.

"This is only over 12 months — so you can begin to see how much the cumulative effect of reinvested dividends could make to your final pension income," said financial planning director Lee Smythe.

There are steps you can take to keep your retirement savings on track.

TAILOR YOUR INVESTMENTS

In your twenties and thirties you can afford to invest in high-risk areas — equities and emerging markets. As you move into your forties and fifties, you should have more emphasis on lower-risk funds, such as UK large cap and income funds.

SWITCH TO BETTER FUNDS

People with poorly performing private pensions have more options than those in company schemes. Personal pension providers generally offer a range of unit trusts on top of their own funds. Check the range offered; if it is limited, consider switching to another provider.

"You might be subject to heavy penalties if you try to move, so find out where you stand," said Steve Potter at Tilney Private Wealth Management.

In occupational schemes, you can only invest within the scheme's rules. Company schemes also tend to have a range of fund options, though, so consider switching investments within that.

PENSION TRANSFERS

It is possible to transfer funds out of a company scheme into a personal pension or different company scheme, if you've changed employers, but this is generally not advisable if your company makes contributions on your behalf.

Come October, however, self-invested personal pensions (Sipps) will be able to accept transfers of "protected rights" — money built up when you contract out of the state second pension.

Consolidating funds within a Sipp will cut down on paperwork and allows for a bespoke pension portfolio. This will cost more, but there are some low-cost Sipps.

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