A bad year for pension savers

All pension companies have delivered negative returns to their investors, but even in times of crisis, some perform better than others.

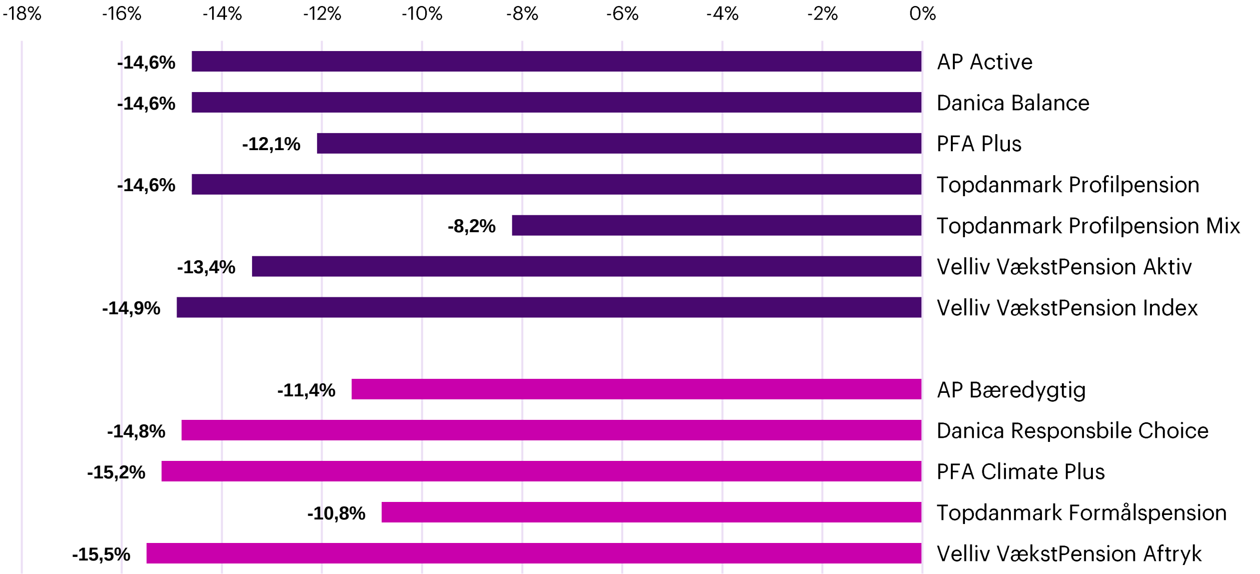
By Martin Wex

A 8.2 percent loss. This sounds like bad news, but in fact there is good reason to rejoice if you have escaped with a loss of less than 10 percent on your company pension savings this year.

WTW's monthly analysis of the returns on so-called life cycle products – where risk is automatically scaled down as retirement approaches – shows that until the end of October, all pension companies have delivered negative returns to their investors – regardless of the risk profile chosen by investors.

»Bad news has replaced bad news this year ever since Russia invaded Ukraine in February and triggered a worldwide crisis that has caused rising prices on commodities and energy, shortages of materials and longer delivery times and, not least, higher interest rates. This has had major, negative consequences for companies in virtually all industries and has left its mark on stock markets around the world. Therefore, the pension companies have mainly been focused on limiting the losses as much as possible – and some companies have managed to do so better than others,« says Investment Analyst Bo Henriksen of WTW.

Pension company returns on life cycle products – January-October 2022



COMPANY RETURNS The bar chart shows the returns from 1 January to 31 October 2022 on life cycle products for people who have chosen medium risk and have more than 30 years until retirement. The pink bars show the returns from green investments.

Topdanmark's Profilpension Mix is the life cycle product that has performed the best – and this applies to all risk profiles and regardless of the number of years until retirement. In Profilpension Mix, Topdanmark's investment experts are responsible for part of the investments, while part of the investment fund automatically follows the general development in the markets. Up to and including October, this has triggered a return of minus 8.2 percent for investors who have more than 30 years until retirement and have chosen medium risk.

Among the actively managed life cycle products, PFA Pension has performed the best with a minus of 12.1 percent, while AP Pension, Danica Pension and Topdanmark all have delivered a minus of 14.6 percent.

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Bo Henriksen | Investment Analyst

The pension companies' returns have generally been dragged down by both stocks and bonds, while the so-called alternative investments in, for example, real estate, infrastructure, and commodities have performed relatively well.

»Alternative investments are good in times of crisis because they are not as sensitive to fluctuations in the economy and therefore help to stabilize the investment fund. Especially real estate has helped to increase the return, because many leases are inflation-proof and have therefore provided PFA, among others, with increasing income,« says Bo Henriksen.

He also points out that the dollar, which has risen by 15 percent against the euro this year, has helped Danica Pension, which has chosen to invest a relatively large part of its assets in US equities.

Bad times for sustainability

This year, there has been increasing interest in the pension companies' green investment funds, where there is a special focus on investing in companies that contribute to the green transition and demonstrate social responsibility. Unfortunately, the good intentions have not been reflected in a good return. Quite the opposite.

»Sustainable investments have had a difficult time this year because many of the stocks that have performed the best during the crisis are stocks that green investment funds are barred from investing in – for example, fossil fuel companies and manufacturers of weapons and other war materials. Therefore, we see that it is the green investment funds that have delivered the greatest losses,« says Bo Henriksen.

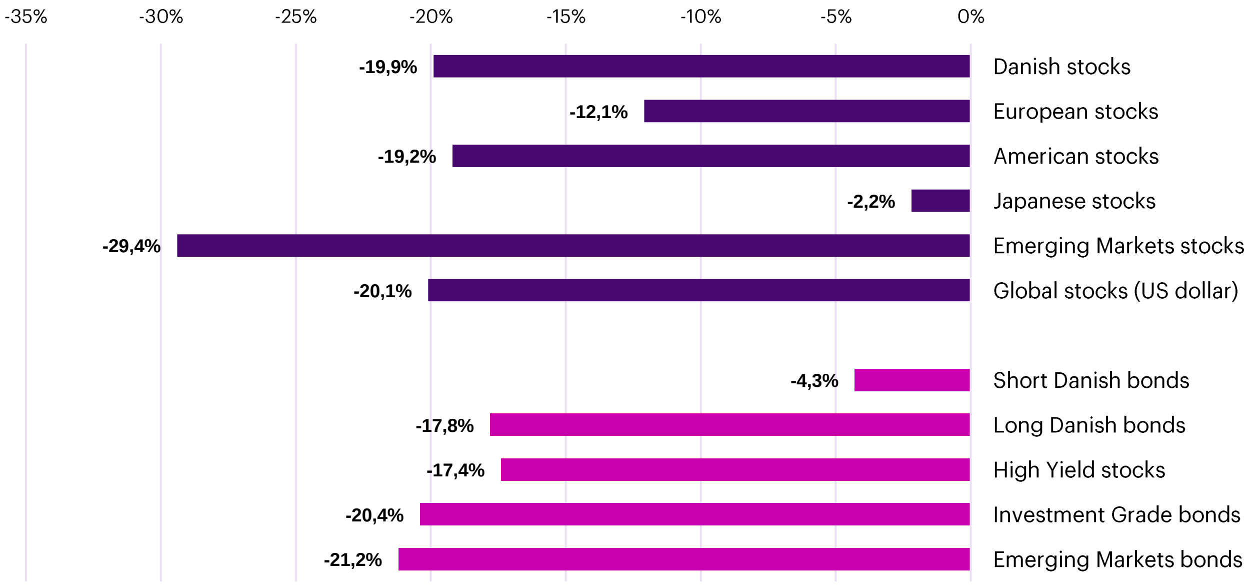
At PFA Pension, Danica Pension and Velliv, the green investment funds – PFA Climate Plus, Danica Responsible Choice and Velliv VækstPension Aftryk – have performed worst for virtually all risk profiles and time horizons. Especially Velliv's investors have lost money on their investment in VækstPension Aftryk, which has given a minus of 16.5 percent for investors who have chosen medium risk and have more than 30 years until retirement.

At Topdanmark, Topdanmark Formålspension has generally performed better than the regular Profilpension, but worse than Profilpension Mix. At AP Pension, on the other hand, it is AP Bæredygtig that across risk profiles and time horizons has given the best – or least poor – return. According to Bo Henriksen, this is because AP Bæredygtig holds a large share of alternative investments.

Japan leads the stock market

In the international stocks and bond markets, there are also negative figures as far as the eye can see. Worst of all in Emerging Markets, which is a collective term for a number of countries in Eastern Europe, Latin America, Africa and Asia. Emerging Markets posted a negative return of 29.4 percent this year. Japanese stocks are the success story with a minus of only 2.2 percent – far better than other markets.

Stock and bond market returns – January-October 2022



MARKET RETURNS The bar chart shows the returns from 1 January to 31 October 2022 in different investment markets. The purple bars show the returns on stocks. The pink bars show the returns on bonds.

On the bond side, Emerging Markets have also delivered the largest loss with a minus of 21.2 percent. Danish short-term bonds performed the best with a minus of 4.3 percent.

»We have seen short periods of rising stock prices, but the overall result from 1 January to the end of October is negative across the board. During November, however, we have seen positive figures for the inflation in the United States, and also seen a tendency of falling interest rates, which has created a cautious optimism among investors. However, it is still too early to start predicting a trend reversal in the stock market, and therefore it is still our recommendation that you stick to your long-term investment strategy no matter what – especially if there are many years until retirement,« says Bo Henriksen.

WTW offers webinars that provide insight into the investment options with the five commercial pension companies – AP Pension, Danica Pension, PFA Pension, Topdanmark and Velliv – and also webinars on the pros and cons of sustainable investments. Find out more at wtw-event.dk