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Eight of out ten pension funds miss targets

Retail offerings fail to deliver

Market rallies lift assets in schemes

By Ellen Kelleher and Lucy Warwick-Ching

More than eight out of ten pension funds have delivered poor and inconsistent returns over five and 10 years, underscoring the difficulties faced by private investors saving for retirement.

A study by Howmuchdoineedtoretire.co.uk, the pensions advisory group, found that 86 per cent of 778 retail pension funds offered by banks, insurers and other firms failed to meet basic performance targets. These included whether funds achieved first or second quartile rankings in at least three of the past five years and had above average returns. The study included funds with more than £10m in assets and a history longer than five years.

Zurich Equity's Managed 2 EP and Axa Lifestyle Retire 2015 were in the minority of funds, with strong returns, while Skandia's balanced pension and Scottish Provident's Managed growth pension performed particularly poorly.

"Investors would be better following a strategy of not using funds," said Matt Morris, investment adviser at Howmuchdoineedtoretire.co.uk. "Investors are being charged for consistent and in many cases very real failure by fund managers who are getting away with appalling performance by any measurement."

FTSE 350

Top 10 largest deficit/market capitalisation

	Pre-tax deficit/ market cap
DS Smith	54.5
Interserve	47.8
WS Atkins	46.1
Go-Ahead	42.2
BT	36.0
BAE Systems	32.5
Galiform	29.2
British Airways	27.9
Morgan Crucible	25.8
GKN	22.7

Source: Barclays Capital

Private pension funds are not the only funds to take a hit. Slumping markets and a rise in the number of pensioners, have also hit companies' pension funding levels. Northern Foods, British Airways, National Express and Thomas Cook are among the prominent companies with the largest pension deficits, according to Barclays Capital.

Meanwhile, the value of assets in defined contribution occupational pension schemes has returned to September 2008 levels, after a rise of £31bn to £451bn over the last month, according to analysis from human resources consultancy Aon Consulting. This compares with a record low in March this year, when assets totalled £344bn, but is still far off the highs of September 2007 when assets were £550bn. Aon said the gains were mainly due to rallies in the equity markets since March. The average 30-year old can now expect an income of £21,410 per year when they retire, compared with last month's projection of £20,659. A 60-year-old can expect £11,384 compared with £10,373.