THE SUNDAY TIMES

The Sunday Times May 31, 2026

MONEY

The secret to timing your retirement to perfection

The overly cautious approach of popular workplace funds as you get close to stopping work can mean your money doesn't keep pace with inflation, says *Bec Wilson*

If you are approaching retirement you probably have a pension you have forgotten about, or maybe two. Possibly even three. Each one in a different workplace scheme, chosen by a former employer through a negotiation you were never part of, invested in a default fund you have never looked at, earning returns you have never compared with anything.

The system was clearly not designed to help you find out about, or monitor, performance. If it had been there is no way the dreadful figures on pension performance in the five years to retirement would have been allowed to stand.

THE RISK OF DE-RISKING

The analyst CAPAdata tracks the performance of UK workplace pension default funds and its figures show what has been happening to workers' pension returns in the five critical years before they reach state pension age, known as pre-retirement. This is when the stakes are highest and there is little time to recover from a bad decision.

A pension pot at retirement still needs to last another 20 to 30 years, though, which means growth still matters enormously. I have spent years writing about retirement planning, and these numbers are worse than I expected for a period when global markets were delivering some of their strongest returns in decades. They should alarm anyone who has a pension in this country.

The best performing pre-retirement fund in the data set over the five years to March 2026 was the SEI Flexi Default, growing at a compound annual rate of 9.5 per cent – impressive. The worst was Scottish Widows, at a miserable 3.3 per cent a year, a rate that did not even keep pace with inflation.

Many of the names that you are likely to recognise are clustered at the bottom. The Legal & General Target Date fund, one of the most widely used defaults in the country, averaged 3.6 per cent a year. People's Pension, covering millions of lower and middle-income workers through auto-enrolment, averaged 3.8 per cent. Royal London averaged 4.6 per cent.

The industry average five-year return was 5.5 per cent a year and every one of those household names was below it. These are the funds millions of British workers were placed into, without their meaningful input and without anyone being required to tell them how their fund stacked up against the alternatives. Oh, and those figures are all before charges. Which makes them worse.

Consider what was happening to prices and investment markets globally during those same five years. UK cumulative inflation ran at about 30 per cent, or about 4.85 per cent a year, one of the most punishing inflationary periods since the 1990s. A fund growing at 3.6 per cent before fees during a period when prices were rising by nearly 5 per cent a year was not growing at all. It was shrinking. Workers invested in the Scottish Widows fund approaching retirement did not just earn less than those with their pension in better funds. They lost purchasing power, year after year, with no obligation on anyone to tell them.

Meanwhile, comparable UK investment funds were delivering far stronger returns.

The IA Mixed Investment 40-85 per cent Shares sector, the benchmark for broadly diversified UK funds and the category most comparable to what a pre-retirement default fund could reasonably hold, returned an average of about 7 per cent a year over the same five years. That is more than double what Scottish Widows delivered to workers. The opportunity was there within the mainstream UK investment universe; why did it pass so many savers by?

Pension firms will argue that they were de-risking deliberately, reducing equity exposure as members approached retirement to protect them from a sudden market fall. But a person retiring today at 65 can reasonably expect to live into their early nineties. Their pension pot needs to last 30 years, not five.

Aggressively shifting into bonds and cash in the years before retirement, in the middle of the highest inflationary period in a generation, may have protected workers from short-term market volatility, but it also gently eroded the real value of their savings at exactly the moment they needed growth to sustain them through three decades of retirement.

The system does not require companies to tell you how your fund compares with competitors. It does not require your employer to explain why they chose it. The Pension Schemes Bill will introduce a value-for-money framework requiring funds to publish comparable performance data, but it is not expected to be fully operational until 2028. For the workers who retire between now and then, that is too late. The point of a pension fund is not merely to keep pace with inflation. It is to exceed it, to build serious wealth for retirement.

HOW TO TAKE CONTROL OF YOUR PENSION

It is not as if this problem has never been tackled before. Australia made workplace schemes compulsory in 1992. It gave workers the right to choose their own fund in 2005. Britain is still debating whether workers can be trusted to do the same thing. That is not a sensible caution to heed based on these numbers. It is a fear that people will desert the large institutions incumbent in the industry in favour of high performers. And it smacks of two things: a lack of faith in the consumer being able to look after themselves, or the opposite, a fear that they will look after themselves, quickly and mercilessly.

One way to stave off de-risking is by setting the predicted retirement age on your workplace pension later, although you may find many funds start the process far earlier than you thought. You can also keep your portfolio from being invested too heavily in bonds by choosing the most adventurous risk portfolio. If you have never selected how much risk you want to take, the chances are that the fund you are in will invest less of your money in equities.

When you retire you are no longer tied to your workplace pension. That is the moment to look properly at what you have been investing in, compare it with what else is out there and move if you need to. Check the table below. If your fund is at the bottom of it, you don't have to stay. Just make sure you check what your employer has negotiated for you first, because some workplace schemes carry guarantees, insurance benefits or other features worth keeping. But if yours offers none of that and has been delivering 3.3 per cent a year while better options existed, you owe it to your retirement to ask why.

According to the Australian-based pension analyst Chant West, the median growth fund in Australia delivered an annualised return of about 7.6 per cent over the five years to December 2025, net of investment fees and tax but before administration fees, compared with the UK industry average of 5.5 per cent before any charges at all. The comparison is not perfectly like for like: Australians tend to stay in growth funds longer, with de-risking less widely used than in Britain.

But that is precisely the point. Default funds in Britain are designed to de-risk, gradually shifting workers out of equities and into bonds and cash as they approach retirement, cushioning them against a sudden market fall in the years before they stop work. That is a reasonable instinct. But it was designed for a world where people retired at 65, bought an annuity and died a decade later.

The shift towards managing your own pension withdrawals and away from annuities, which pay a set income for life, means retirement is no longer a finish line, it is a starting gun. The investment strategy needs to reflect that.

Bec Wilson is Times Money's retirement columnist and the author of How to Have an Epic Retirement

HOW DEFAULT FUNDS PERFORM AS YOU APPROACH RETIREMENT

Average annual return in the five years before savers' state pension age

SEI (45.2k active savers)	9.5%
The Lewis Workplace Pension Trust (6.7k)	7.7%
Nest (5.1m)	6.3%
Aon (114.5k)	5.9%
Hargreaves Lansdown (90.6k)	5.9%
LifeSight (145.7k)	5.9%
Now: Pensions (825.8k)	5.9%
Standard Life (1m)	5.6%
Aviva (2.1m)	5.5%
TPT Retirement Solutions (158k)	5.4%
Fidelity (296k)	5.2%
Mercer (243.6k)	4.9%
Aegon (770.6k)	4.8%
Royal London (842k)	4.6%
People's Pension (1.8m)	3.8%
Legal & General (2.3m)	3.6%
Scottish Widows (1.6m)	3.3%

Investment returns to the end of March 2026, before charges. Source: Corporate Adviser Pensions Average

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