

Lifestyle option will push up stakeholder cost

Experts have criticised government regulations designed to reduce the risks associated with stakeholder pensions.

The government regulations, set to come in on 6 April this year, are designed to protect stakeholder customers from a sudden fall in lifetime savings by putting money into a lifestyle option.

The regulations will force stakeholder providers to offer lifestyle options, which will mean that customers who do not make their own investment decisions will have their pension gradually moved to less volatile investments.

However, Ray Young, chief executive at 3Q Solutions, argued that the lifestyle option will incur an extra 0.5% charge on customers' pensions.

"With the current inflation rate in the UK nearing 4.75%, this additional 0.5% charge means that the customer's pension policy will have to make a return of 6.25% before actually making any money for the customer," said Young.

He argued that the lifestyle option will make stakeholder pensions too costly for most people.

Pensions minister, Malcolm Wicks, said: "Lifestyling will help provide people with a degree of certainty in the years leading up to their retirement.

"This will mean that people can have their pension moved into investments that will reduce the risk of an unexpected drop in value just before they retire," said Wicks.

According to Wicks, lifestyling will start at least five years before they plan to retire. However, members will be able to opt out of lifestyling if they choose to.

Wicks confirmed that the stakeholder pension charge cap would be increased. The cap for new members will be an annual management charge of 1.5% for the first 10 years, decreasing to 1% after that.

"Contributions to stakeholder pensions in the first half of this year have gone up by a quarter, compared to the position a year ago, as more people see them as a way to save for their retirement," said Wicks.