

PENSIONSINTERNATIONAL

UK: Stakeholder pension changes brings new charges

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We usually think of stakeholder pensions as an economic simple option, which is targeted at the mass market to allow them to retire on a financially viable pension fund. But what does the introduction of "lifestyling" and the consequent increase in product charge mean for the client?

Last week, the UK Department for Work and Pensions announced new regulations that will give stakeholder pension clients the option to reduce the risk of experiencing a sudden decline in their pension value just before retirement. The lifestyling regulation change will come into force on 6th April 2005, and will require financial institutions to allow their clients make their own choice as to where their pension is invested at least five years before they plan to retire.

Stakeholder pensions were first introduced to help close the savings gap in the UK, but also to provide more income for individuals who previously relied on the state pension as their main source of income on retirement. To date many industry experts believe that stakeholder pensions have failed to meet its original objective, and so welcome changes, which hopefully will make stakeholder pensions more successful.

However, the extra 0.5% charge introduced by the Pensions Minister, Malcolm Wicks, must be questioned. With the current base 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 5.25% before actually making any money for the customer. Stakeholder pensions are meant to be the cheapest pension available in the UK, but the extra 0.5% increase in product costs will make them too costly for most people and fail to meet their right target market?

In addition, the problem also remains that the perfect stakeholder pension portfolio one day may become unsound the next day due to world events and macro-economic changes. Effective portfolio management needs to take place throughout the pension term, not just five years before retirement to ensure that a desired pension fund is achieved. If effective portfolio management was introduced from day one, would there be a need for lifestyling at the end of the pension plan?

Lifestyling is an extra process added to the stakeholder pension. One must question why the Government is introducing this added feature now which will undoubtedly drive the price up. It is also another process to which the client must gain comprehensive understanding, and decide if they want to go with the lifestyling option or not. Will this ruin the simplicity of a stakeholder pension?

Perhaps one of the major problems with stakeholder pensions is that they are being promoted as a promise of an income at a particular age, rather than as a long term investment. When supplying a product, stakeholder pension providers should instead emphasise that a pension is an asset that you the client owns and must take responsibility for from day one. The adviser is there to help the client take on this responsibility and provide an understanding, and education as to the best route for their pension lifetime.

The product providers have been trying to get a higher price cap since the introduction of the stakeholder pension in April 2001. They believe that the costs of promotion, distribution and advice included in the product can not be sold effectively to the client with today's price cap.

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However the introduction of an extra lifestyling charge is not necessarily the best way to increase stakeholder generated revenue.

When looking at the distribution of stakeholder pensions and other stakeholder products, effective selling is possible if the right distribution channel is chosen. Ideally a channel that allows for high volume, high throughput and can successfully sell using economies of scale. An effective way to manage such a channel is through the introduction of technology that can support product sales and client understanding. The option of using both online and direct sales strategies with the targeted propositions has the potential to turn the stakeholder pension market around and lead the way for the rest of the stakeholder product, due for introduction in April 2005.

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