Lifestyle fund switch: savers warned over 'hidden pension danger'

INVESTING AND PENSIONS

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Updated on 28 January 2025 | 0 Comments

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Beware of lifestyle fund switches that could devalue your pension.

The average pension saver could lose £90,000 if their nest egg is switched from the stock market into bonds at the wrong time, according to the Telegraph newspaper.

This so-called 'hidden pension danger' could drain thousands from people's retirement savings, according to research by the broadsheet.

One 59-year-old saver had lost almost a third of his £330,000 retirement fund because his pension funds were switched from shares into bonds following former Prime Minister Liz Truss' mini Budget.

The move, known as 'lifecycling', is typically made by pension funds in an attempt to 'derisk' pension portfolios the closer the saver gets to retirement.

The logic of this common strategy, often automatically instigated by employee pension funds, is that bonds are generally lower risk than equities for those approaching retirement.

However, the approach backfired for many during the bond market chaos in Autumn 2022 and still affects pension savers in their 50s and 60s.

Experts fear the issue could raise its head again given the recent surge in bond yields.

Lost sums could ruin retirement plans

Rising interest rates and falling bond prices meant £100,000 was wiped off the value of Adam Daniel's pension savings.

"I'm lucky and this hasn't changed my retirement plan, but I'll never be able to save that [money] again and I have lost the compounding interest effect," Daniels told the Telegraph.

"For some people, the sums lost will be life-changing.

"Anyone over the age of 35 should have realised these low interest rates couldn't last forever and should have had a plan for when they started moving to protect savers," Daniels added.

"Pension administrators and trustees need to be more aware of what's going on in the market and not just blindly follow their strategies and destroy their members' pension pots."

Daniels, who worked in the City for years, says he has since switched his pension into a self-invested personal pension (SIPP) to give him more control over where it is invested.

Pensions firms 'failed to meet the challenge required'

Former pensions minister Ros Altmann said it was a "massive disappointment" that pension companies had "simply failed to rise to the challenge of developing new products" despite repeated warnings about the 'life cycling' issue.

Meanwhile, Rob Morgan at stockbroker Charles Stanley said that those closer to retirement age would be most affected by any issues with the bond market.

However, Laith Khalaf at broker AJ Bell reassured pension savers, saying that "we're very, very unlikely to see such deeply negative returns given yields are starting from a much higher level, and bonds are also now paying some income, which can offset capital losses."