DEPRESSED: Quantitative easing potentially devastating for those drawing benefits from a pension scheme

BoE move bad news for retirement cash

Annuities: QE putting squeeze on bond yields

BY GORDON WILSON

Quantitative easing (QE) might not mean much to many of us.

While it may be the shot in the arm the economy needs, it is potentially devastating for anyone drawing benefits from a pension scheme or anyone about to retire.

We have had people coming to us for advice where they have seen an income reduction of up to 60% where their income-withdrawal plan has come up for review; this can be catastrophic.

QE accounts for a significant amount of this loss.

So what is QE?

Having reduced the base interest rate to as low as it can go, the Bank of England has had to trigger Plan B in an attempt to stimulate the economy. Plan A was to cut interest rates in the hope that this would get money back in the hands of the consumer who would start spending again, rather than saving, and boost the economy.

QE began with the bank injecting £75billion into the economy in March 2009, followed by £125billion in the same year. Last October saw the introduction of another £75billion and, then earlier this month, a further £50billion saw the total to date rise to £325billion.

> "Annuity rates have fallen by around 25%"

In effect, the bank prints money although it is done electronically. It uses this new-found cash to buy bonds held by banks and financial institutions, which puts money in their coffers. This should in turn mean they find lending money easier, which should mean the money reaches our pockets which we then spend and the economy gets a lift.

So why does this mean pensioners lose out?

An unintended consequence is that, in buying all these government bonds, it increases their price which in turn depresses the yield (the interest rates) that these financial instruments pay. The yield is a key determinant in the calculation of the income you derive from a pension be it from an annuity (where you exchange your pension fund for a guaranteed income for life) or income withdrawal from a fund that remains invested. If the yield is low, then the income you can get from a pension fund will be similarly low.

According to Saga, since QE was introduced in 2009, annuity rates have fallen by around 25%, affecting more than 1million pensioners. It has therefore never been more important to carefully consider your pension options at retirement but some simple things are often overlooked.

Everyone with a pension fund is entitled to an open-market option. This allows you to shop around for the best annuity rate, yet most people retiring choose the easy option and elect to go for the annuity offered by the pension provider; seldom the best option. It is also possible to secure higher rates on an "impaired-life" basis if you have any health issues, are overweight, smoke or drink excessively.

Your postcode can even result in a better rate.

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