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Fund values and annuity rates fall in bid to save economy: By Jennifer Hill

Hundreds of thousands of people retiring this year have seen more than £500m wiped off their annual pensions by the Bank of England's attempts to reflate the economy. Those approaching retirement are facing cuts of more than a third in their lifetime incomes as fund values and annuity rates, based on interest rates, plunge.

Almost £20m has been lost from retirement incomes in the past week alone as the Bank has pumped billions into the economy, bringing rates down still further. The measures have also had a devastating impact on existing workers' pensions, with £85 billion wiped off company final-salary schemes since the Bank announced its programme 10 days ago, said investment bank RBC Capital Markets.

The move has raised fears about the ability of firms to plug deficits as the recession deepens. Vince Cable, the Liberal Democrat Treasury spokesman, said: "There's growing concern in the industry that the Pension Protection Fund (which backs the schemes of failing firms) could be one of the next big casualties."

About 1.1m people will buy an annuity this year, according to actuary Watson Wyatt. The value of their pension funds, worth £21.6 billion before markets plunged, will now be just £16.2 billion, a drop of 25%.

Meanwhile, rates on annuities, which provide an income for life, have also fallen. Annuity rates are based on yields on 10-year gilts (government bonds), which in turn reflect Bank rate. Benchmark annuity rates for a 65-year-old man have dropped to 7.14% from 7.92% a year ago — an unprecedented fall, according to pensions experts.

All those retiring this year can expect a collective £1.16 billion in income, down from £1.71 billion — or £550m less, according to adviser Hargreaves Lansdown.

Ros Altmann, a pensions consultant, said: "Newly-retiring pensioners are being dreadfully hit, suffering pension income of 35% lower for the rest of their lives."

Someone with a £100,000 pension pot is likely to have lost £25,000 in capital value over the past year, and will receive an income of just £5,355 a year, compared with the £7,920 they would have received before capital value and annuity rates plunged.

The Bank's efforts to pump £75 billion into the economy through "quantitative easing" — or buying gilts — has pushed up gilt prices and brought yields down to 50-year lows. These yields are used to price annuity rates.

A string of insurers, including Standard Life, Norwich Union and Legal & General (L&G), slashed their rates last week. Standard Life cut its standard rates by 3.4%, while Norwich Union and L&G — the biggest players in the market alongside Prudential — imposed a 2% cut.

“That’s an enormous fall in one blow for retiring investors,” said Nigel Callaghan at Hargreaves Lansdown. “Hundreds of thousands of pensioners face an even poorer retirement as a result of the government’s quantitative-easing measures.”