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WBA

Countdown to Retirement

The Gold Service from William Burrows Annuities*

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Annuity Update - Annuities head south

There are more signs that annuity rates are about to drift downwards as Canada Life, Legal & General and Norwich Union cut their rates last week. This follows a significant cut by Prudential recently.

It seems almost certain that the Bank of England will start cutting interest rates in an attempt to stimulate the economy, providing the lid can be kept on inflation.

So what does this mean for annuity rates? First of all we don't subscribe to the view that annuity rates will be cut drastically and quickly. We believe that rates will drift downwards over the next few months.

The reasons why annuity rates may fall are as follows:

- Long term yields on gilts will probably fall as the government borrowing requirement increases but most annuity providers invest mainly in corporate bond yields and these yields may not fall as fast as gilts
- The annuity market is very competitive and annuity companies will want to maintain market share and therefore will keep rates as competitive as they can

Continuing concerns about inflation may limit downward pressure on yields. Some commentators say increased public spending will fuel inflation but others believe that falling oil and commodity prices and the oncoming recession will drive prices down. Whatever the view, investors should be wary of inflation and take steps to inflation proof their pensions.

Interestingly, the yields on 15 year gilts are at the same level as one year ago at around 4.75%. This suggests that annuities are still priced at the same level when yields were over 5% in the summer.

The chart below shows the movements in annuity rates over the past 12 months. A £ 100,000 annuity will now pay nearly £ 300 per annum more compared to one year ago, an increase of 4%.

We predict that rates will indeed ease off and we would not be surprised if a £ 100,000 annuity was paying around £ 200 per annum less before Christmas, a fall of about 2%.

Therefore there is probably no need to panic into buying an annuity, but there will be a rush to look at the investment of pension funds.

The right hand axis plots the FTSE and shows that the index for the UK's top 100 companies has fallen by over 35%.

Key Points

Canada Life cut rates by 1.5%

Norwich Union reduces rates by about 0.7%

Don't confuse short term rates with long term yields

Important to watch investment of pension fund as well as annuities

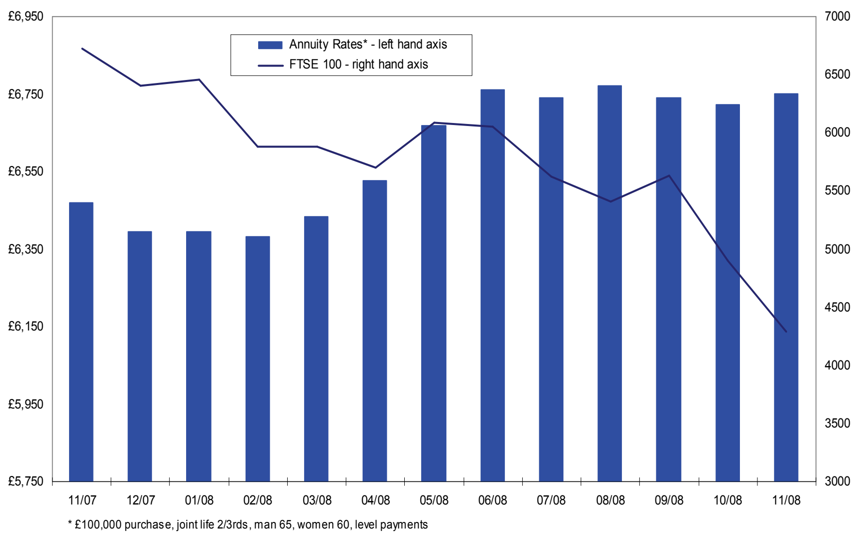
For the latest annuity rates and trends visit ww.williamburrows.com

Hopefully not many people approaching retirement will have suffered as such a huge loss because they should have more balanced investments. The point is that movements in equity prices can have a far greater affect than movements in annuity rates.

Those approaching retirement should keep one eye on annuity rates and an even bigger eye on their investments. If equity markets bounce back it might be a good time to convert pension funds into annuities. Those invested in cash or other safe funds may wish to consider purchasing their annuities sooner rather than later.

Billy Burrows November 2008

Annuities and FTSE 100 - November 2007 to 2008



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