Retirement choices shrink as annuities withdrawn

One of the UK's biggest insurance companies has withdrawn from the advisory annuity market.

The pension freedom reforms revealed in the 2014 Budget claimed another victim last month as the Prudential announced it would no longer provide annuities via financial advisers. Earlier in the year two specialist annuity providers merged in the face of declining business levels and stricter solvency rules.

The reduction in competition, leaving little more than a handful of companies actively seeking pension annuity business, comes at an unfortunate time. One of the perhaps surprising consequences of the Brexit vote has been a fall in long term UK government bond yields. The drop reflects a 'flight to safety' and has already had a knock-on effect in reducing annuity rates still further.

The post-Brexit economic outlook suggests that there is little prospect of yields recovering in the near future. In some economists' scenarios the Bank of England may soon resort to more quantitative easing (QE) in an effort to stimulate growth, a move which would force gilt yields down another notch. As the experience of Japan, Switzerland and the Eurozone shows, long term gilt yields of about 1.75% still have plenty of room to decline.

All of which means if you are considering when and how to convert your pension pot into a retirement income, it is vital to seek advice before taking any action. There is a strong case for building in as much flexibility as possible, so that any longer term favourable changes in market conditions can be exploited. The wrong decision made today could prove very costly in terms of lost income over the rest of your lifetime.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.