# Bank of England’s rate cut draws criticism

By Editorial Staff *Thu, Aug 11, 2016*

*'Trustees of pension schemes, whose deficits keep rising, are facing almost impossible investment dilemmas,' said Amlan Roy of the London School of Economics.*

UK pension experts have protested the Bank of England’s announcement that it will cut interest rates, saying that it will hurt the funding status of already-ailing pensions.

The UK central bank said it would reduce interest rates to 0.25% from 0.50%, expand its quantitative easing (QE) program by £70bn (€81.9bn) via £10bn in corporate bonds and £60bn in UK “gilt” bonds and launch a “term funding scheme” to ensure banks pass the rate cut to borrowers.

Pension consultant Hymans Robertson estimated deficits of UK final salary-type schemes post-Brexit had grown to £935bn.

“A further fall in interest rates as a result of (yesterday’s) Bank of England announcement will see this figure increase further towards the £1trn mark,” said former pensions minister Ros Altmann. “Employers struggling to support these schemes face pressure to put in more money.”

Amlan Roy, of the London School of Economics (LSE) and London Business School (LBS), said fiscal policy measures, as well as structural reforms, were necessary to tackle economic weakness. All three “arrows”—fiscal stimulus, monetary easing and structural reforms—are needed all over the world, he said.

“Trustees of pension schemes, whose deficits keep rising, are facing almost impossible investment dilemmas,” she said. “If the employer has already put huge sums in or cannot afford to do more at the moment, then trustees ideally need to find other ways to reduce the deficit.”

Nigel Green, chief executive of financial consultancy deVere, said the Bank of England’s package of measures designed to cushion the UK from recession won’t solve the country’s economic troubles.

Slashing the key interest rate to historic lows and extending the QE program to £435bn in total was going to unleash more “catastrophic damage on pensions, pension funds and, potentially, the UK’s long-term sustainable economic growth,” he said. “A different solution – a more direct way of boosting growth – rather than forcing Gilt yields lower, has to be found by the Bank of England.”