Low interest rates a ‘nightmare’ for pension funds: UK official

By Editor Test *Wed, Jun 27, 2012*

But Pension Minister Steve Webb said he intended not to act but to follow the example of Denmark and Sweden, which recently announced a voluntary floor that could be used by the country's pension providers.

The United Kingdom’s top pension official described the current low interest rate environment as a “complete nightmare” for pension funds, and said governments should not stand “idly by” if accountancy standards cause unnecessary volatility on pension fund balance sheets, according to a report at IPE.com.

But Pension Minister Steve Webb said he did not intend to act immediately but to follow the example of Denmark and Sweden, which recently announced a voluntary floor that could be used by the country’s pension providers.

“I’m not going to change Britain’s policy on how we discount future pension liabilities overnight, but it was clearly an issue everywhere we went,” he told delegates at an event organized by the National Association of Pension Funds.

Webb was asked by reporters whether the UK should follow the example set by Denmark—whose 10-year sovereign bond yield has been about 1%– and modify the applicable discount rate to relieve pressure felt by pension funds.

Webb, who this week visited Denmark and the Netherlands in an effort to learn about their approaches to risk-sharing, said many people there told him that low interest rates were “a killer” and that the current situation, where pensions were hardly able to discount future liabilities, was “a complete nightmare.”

It is important for realistic discounting of future liabilities to occur, international accounting standards notwithstanding, Webb said. “Governments don’t do accountancy standards because [the standards] are pure, professional and non-political, and [public officials] should just keep out,” he said. “But of course the way liabilities are measured on balance sheets has massive, real implications.”

Webb concluded that governments could no longer stand idly by when accountancy standards were changed due to the “massive” impact such changes would have on a country’s economy. He said the effect also extended to pension fund liabilities being “unnecessarily volatile,” which in turn had consequences for plans.