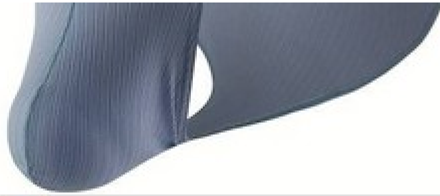

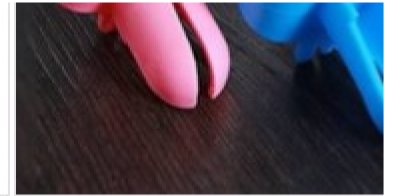

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OPINION

By Baroness Ros Altmann

Interest rates rises will hit pensioners hardest – banks have a duty to act

Major banks, on which more older savers rely, tend to offer the lowest rates on saving accounts

May 11, 2023 3:55 pm (Updated 3:59 pm)

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The increase in interest rates is unlikely to make much difference to inflation, will add to problems facing mortgage holders and could also harm older people whose savings rates continue to lag behind living costs (Photo: Peter Dazeley/ Getty Images)

The latest decision to raise the Bank of England base rate by 0.25 per cent points to 4.5 per cent is disappointing for many people, especially for those in later life.

Normally, higher interest rates are expected to be very good for savers but damaging for borrowers. However, in recent times, double digit inflation, coupled with higher debt

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When it comes to savers, of whom many are older people who have built up nest eggs through their working life, the banks have been notably slow in passing on the rate rises. Indeed, older savers lose out most because the best saving deals are only available online.

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Official figures show that around half of over 70s are not digitally enabled and do not use Wi-Fi enabled smartphones – either because they cannot afford to or struggle to cope with the technology. This means they cannot access the best rates. The major banks, on which more older savers rely, tend to offer the lowest rates on saving accounts, and have lagged behind best-buy market rates.

Banks have been increasing their margins, being much faster to pass on rising rates to borrowers than savers, which undoubtedly hurts older people who are often struggling on very low pensions amid the cost of living crisis. They are particularly affected because the fastest price rises are for basic essentials that pensioners rely on more than

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Pensioners are also more likely than younger age groups to rely on savings income to support themselves in retirement. So again, a failure to pass on higher rates in full will leave them worse off, even while banks themselves earn higher interest on their deposits at the Bank of England.

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Another notable problem is that bank rates still lag way behind inflation, so people's real incomes are falling. A small rise in interest rates offers little help to meet rising bills.

Furthermore, higher rates will not help pensioners who built up private pension funds in money purchase schemes and converted their fund into a lifetime income (known as an annuity). Almost all these people were encouraged to buy a fixed annuity, with no inflation protection, and those who bought in the recent years of ultra low interest rates will be struggling as their income does not rise at all while inflation and interest rates rise.

People who are nearing retirement and have been building investment funds for retirement have often been told to buy supposedly safer and lower risk bonds, but

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they enter retirement due to rising interest rates.

An offsetting factor for them could be that higher interest rates have improved the value of new annuity purchases, so they might secure a higher lifetime income. Whether or not people lose out here depends on whether their fund has fallen by less than the improvement in annuity rates.

When it comes to company pension schemes, which promise a salary-related pension, higher interest rates can lead to improved funding. But this helps employers rather than members, whose promised pensions are not usually fully inflation linked – except in the public sector – so pensioners in these schemes do not benefit from higher rates but are also losing out as any pension income increases do not meet rising living costs.

Overall the increase in interest rates is unlikely to make much difference to inflation and will add to problems facing mortgage holders. It could also harm older people whose savings rates continue to lag behind living costs, whose pension funds are hit by falling bond values, or whose pensions fail to protect against inflation.

Baroness Altmann is a Conservative peer and pensions expert