Will a Brexit really be bad for my pension?

In the last four big decisions in the UK the polls have been wrong; in the case of the last election, pretty disastrously so! Nevertheless the evidence is that a Brexit is less likely than the remain vote.

For the record I think it will be closer than the polls think, but if you look to betting websites – where people literally need to put their money where their mouth is, odds seem pretty static: pricing in around a 80% probability of a "Remain" victory.

Meanwhile, Ros Altmann, the Pensions' Minister claims that leaving the EU would make pensioners worse off.

There's lots of problems with this as an argument, so I'll deal with the main ones below.

It presumes the Treasury is right

Baroness Altmann's thinking is based on the Treasury's economic forecasting, which may or may not be correct. The Treasury models various bad scenarios, and assumes that in the event of a Brexit then inflation could be high, and wages could be low. This has a potentially deleterious effect on State Pensions which are linked (in the main) to the better of inflation (CPI), earnings or 2.5%. Pensioners should like low inflation and high wage inflation.

But what if interest rates rise?

Outside of the EU the UK government might need to pay more to borrow money, interest rates may then well rise. Or the Bank of England might put up rates (as we have been told elsewhere), to try and control inflation, in either case annuity rates might improve – this could be good for those who have delayed purchasing an annuity in the light of the currently lower rates. Deposit rates might also improve too.

Logic dictates what is bad for house buyers should well be good for pensioners.

And how dependent on the UK are pensioners?

Obviously a UK domiciled and resident investor has to spend their funds in Sterling, and has a strong link to the fortunes of the UK economy. It does not mean their pension does. Many of our clients might only have 10-20% in UK Equities, and therefore even in the unlikely event of Brexit (see above implied probabilities), it does not mean the other 80-90% of their portfolio would fall. This may well be the case with those with private pensions, drawdown plans and other non-pension (but income providing) investments like investment ISAs.

The implicit guarantee of final salary schemes

Whilst Final Salary schemes have all but died out for new employees, pensioners who started

employment in the 50s, 60s and even 70s may have built up significant final salary rights. Clearly Civil Service and other government sponsored schemes have a gilt-edged guarantee, but even those sponsored by private and public companies enjoy guarantees that ultimately become the responsibility of the pensioner's prior employer. This guarantees will not evaporate if we leave the EU.

Conclusion

Whether you believe the polls, or the historically more reliable implied odds of betting sites, the chance of Brexit is low.

A vote to leave is not actually the same thing as leaving. Models suggest a couple of years of volatility, and for those with a longer term view, this will ultimately subside.

The problem with investing is there is always a risk: Brexit is a known and current one, but experience tends to suggest that it's the **unknown** that causes the greatest problems. Despite the modelling and political rhetoric, no-one can really know whether the referendum's outcome will be good, bad or indifferent – whoever you are; moreover we won't likely know the impact even when we know the result!