independence matters

Association of Independent Retirees

Media Release

RETIREES CONCERNED ABOUT INTEREST RATE CUT

"The action taken by the Reserve Bank to reduce the cash interest rate by 0.25% to 1.25% is a major concern to partly and fully self-funded retirees," said Mr Wayne Strandquist, Acting President of the Association of Independent Retirees.

"Fixed interest investment often forms a substantial part of a retiree's superannuation and private savings portfolio, particularly in the latter years of retirement", said Mr Strandquist. "The Reserve Bank cash rate reduction will put downward pressure on returns from term deposits and cash held in bank accounts", Mr Strandquist added.

"This reduction in fixed interest returns continues a trend which has seen term deposit rates at record lows and less than half what they were when many older retirees left the workforce over 10 years ago", Mr Strandquist emphasised.

"This announcement by the Reserve Bank comes at a time when living costs are increasing. In recognition of this, the national minimum wage has just been increased by 3%, but retirees will face a cut of up to 10% in the returns from bank term deposits. Comments from the RBA indicate that the interest rates have further to fall and this will see even deeper cuts to income from fixedincome investments", said Mr Strandquist.

"This reduction in income will lower the living standards of self-funded retirees or require larger drawdowns from retirement savings until retirees are increasingly dependant on the aged pension. said Mr Strandquist.

“During the early years of employment, workers usually select a growth option for their superannuation or private investments as they have a long investment horizon of 40 years or more till retirement. However, when retired, risk appetite changes over time to more conservative investments with less volatility and less risk like term deposits and bank savings accounts,” said Mr Strandquist.

“Australians now enjoy one of the highest life expectancies in the world, but this has consequences for those who are saving for their retirement.” said Mr Strandquist, “The increase in life expectancy means that workers need additional savings for retirement and higher returns from savings in retirement”, said Mr Strandquist.

“While retirees today will enjoy longer retirement life, they face escalating health and aged care costs due to advancement in medical science, technology and accommodation costs as well as the usual increases in the cost of living. This is a classic income-cost squeeze”, Mr Strandquist explained.

“One suggestion to assist retirees impacted by low-interest rates might be the issue of Government Infrastructure Bonds for retirees. There is significant public demand for infrastructure investment and this could satisfy a need for conservative fixed interest investments with better returns than cash deposits”, said Mr Strandquist.

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