independence matters

Association of Independent Retirees

Media Release

RETIREES MISS OUT WITH RBA 0.25% CUT IN INTEREST RATE

"The Reserve Bank decision to reduce the cash interest rate by 0.25% to 0.75% is a major concern to many partly and fully self-funded retirees," said Mr Terry O'Callaghan, Director of the Association of Independent Retirees.

"For many retirees, investment in term deposits, fixed interest securities and bank accounts form a substantial part of their superannuation and private savings portfolio," said Mr O'Callaghan. "This occurs particularly in the latter years of retirement when retirees usually seek less exposure to risk and volatility in their retirement investment portfolios such as experienced with shares and property."

"The Reserve Bank cash rate reduction of 0.25% will put downward pressure on returns from term deposits, fixed interest securities and cash held in bank accounts", Mr O'Callaghan.

For a significant period now banks have paid 0% interest on small bank account balances typically below $10,000 and interest rates lower than the RBA cash rate interest for amounts above. "Should the RBA cash rate be further reduced to say zero interest, the banks may then consider charging clients for holding their cash by having a negative rate of interest for small account balances," said Mr O'Callaghan. "This would be an absurd situation in a resource-rich country such as Australia," added Mr O'Callaghan.

"This announcement by the Reserve Bank comes at a time when living costs are increasing. In recognition of this, the Government has introduced reduced income taxes for those working and back in July, the national minimum wage was increased by 3%. However retirees have continued to bear reductions in returns from their fixed interest investments," said Mr O'Callaghan.

"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 the demand for retirees seeking conservative fixed interest investments with better returns than cash deposits", said Mr O'Callaghan.

Following the reduction of the RBA cash rate to 0.75% there the Government needs to adjust the deeming rate used to value assets held by pensioners.

"The higher the deeming rate is above the interest rate actually received on their financial investments, the lower the age pension payments will be. This is particularly unfair for partly self-funded retirees who rely on a part age pension," said Mr O'Callaghan.

"Deeming rates are determined by the Minister for Social Services and are supposed to reflect returns available from a range of financial products including fixed interest returns, but no change to the deeming rates has been mentioned with this latest RBA cash rate reduction," said Mr O'Callaghan.

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