SMSF Owners' Alliance
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Don't Forget the Nation's Savers Mr Stevens

When the directors of the Reserve Bank meet next Tuesday to review the official interest rate, they need to bear in mind their duty to act in the interests of the economic prosperity and welfare of all of the people of Australia*.

The millions of Australians who rely on interest income from their savings to live must not become the forgotten people.

In challenging economic times, it is not an easy task for the Reserve Bank to manage monetary policy in a way that will be to the greatest advantage of everyone, but in striving to sustain a growing economy it should not overlook the situation of savers who provide the money for others to borrow.

However, while the Bank makes a careful assessment of economic conditions in Australia and abroad, including the exchange rate, concern for the impact of lower interest rates on people dependent on interest income is not reflected in the Board minutes. The cash rate has been lowered eight times since the beginning of 2011 but the Board minutes mention savers only once. The minutes of the 7 May 2013 meeting say: *"Savers have been changing their portfolios towards assets with higher expected returns, asset values have risen and some interest-sensitive areas of spending have increased."* This comment recognises that savers are being forced by low interest rates to look for higher returns, but doesn't acknowledge that seeking higher returns means taking on higher risk.

Since 2010, the Reserve Bank has sliced the cash rate from 4.75% to an historic low of 2.5%. With banks currently offering around 3.5% on term deposits and taking inflation of around 2.5% into account, this means a very marginal real return, even lower for savers who must pay tax on their interest income.

The direct adverse impact of lower interest rates has been greater for self-funded retirees than the positive effect on business and homebuyers. The fall in the cash rate over the past 3 years has lowered costs for business and helped homebuyers, but for self-funded retirees it has slashed the interest income on which they depend for their living by almost half, unless they have been prepared to take greater investment risks.

In March this year, SMSFs held $137.8 billion in cash/term deposits. On that basis, the 0.5% reduction in the official rate since then, passed on by banks, has cost SMSFs collectively $689 million in interest income.

ATO statistics show that, on average, SMSFs hold 33% of their assets in cash/term deposits. This conservative weighting is more pronounced among those with lower balances - SMSFs with less than $500,000 in assets hold 57% in cash/term deposits. So the impact of lower interest rates is felt most keenly by the owners of smaller funds.

The trustees of these funds now have to either mark time and hope interest rates eventually rise again or take their money from the safety of a bank and put it into a riskier form of investment. It's not an easy choice.

The Reserve Bank Board does not face easy choices either. But we hope that at their meeting next Tuesday, the Bank's directors will give due weight to the *'economic prosperity and welfare'* of the nation's diligent savers who are underwriting the economy and who are relying on interest income from their savings to support themselves in retirement.

**"It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank...are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:*

a. the stability of the currency of Australia
b. the maintenance of full employment in Australia, and
c. the economic prosperity and welfare of the people of Australia

Section 10 (2) - Reserve Bank Act 1959

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