SMSF Owners' Alliance
Limited ABN 96 161 052 464
Not-for-profit public company

Rate cut should lead to drop in minimum super pension

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The Reserve Bank's decision today to lower the official cash rate to 2% makes it more pressing for the Government to consider reducing the minimum superannuation pension rates.

The official rate is now a full percentage point lower than the 3% level it reached in the Global Financial Crisis.

If banks pass on the rate cut, the interest rates they offer for deposits by SMSFs will likely be around 2.5% or less. Taking into account inflation running at 1.3%, the real interest paid to SMSFs will then be less than 2%.

At the time of the GFC, the Government halved the minimum superannuation pension rate, recognising that with investment returns and asset values tumbling, retirees were being forced to sell into a depressed market to have cash available to withdraw the minimum pension.

For now, asset values are holding up but historically low interest rates mean the cash generated by superannuation funds to pay a pension is reduced significantly.

SMSFs typically hold a relatively large proportion of their assets in cash – currently $156 billion amounting to 28% of their total assets on average. Smaller funds hold more in cash – 45% or more.

Today's 0.25% cut in the official rate will collectively cost SMSFs some $390 million in reduced interest income.

As well as lower interest income, another key source of revenue for SMSFs, dividends, are also likely to decline as the economy slows.

Reduced fund earnings spark fears that retired people may have to sell assets to generate enough cash in their fund to pay the minimum pension requirement.

As people expect to live longer they become concerned about whether their savings will last the distance.

It is now time for the Government to think about reducing the minimum pension rate so retirees are not forced to deplete their savings by drawing more than they need to live on.

As the table below shows, during the years when interest rates and investment returns were depressed by the GFC the Government lowered the minimum pension drawdown rates to 50% of the normal rate (2008-09 to 2010-11) and then to 75% (2011-12 and 2012-13). The normal rates were restored from 2013-14.

Age	Minimum pension	GFC level 2008-2011	GFC level 2012-2013
55-64	4%	2%	3%
65-74	5%	2.5%	3.75%
75-79	6%	3%	4.5%
80 -84	7%	3.5%	5.25%
85-89	9%	4.5%	6.75%
90 - 94	11%	5.5%	8.25%
+ 95	14%	7%	10.5%

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