

INTEREST RATE RISE: ABC RADIO SYDNEY INTERVIEW 7 November 2007

The interest rate rise announced by the Reserve Bank on Wednesday Tuesday, 7 November 2007 prompted questions from the media. A.I.R. was invited by ABC Radio Sydney to provide a comment how retirees perceived the interest rate rise. Following is the information which I provided on behalf of A.I.R. in an interview on the ABC in Sydney.

Initially, it must be recognised that A.I.R. represents various categories of retirees, those over 75 years of age, superannuants, and trustees of self-managed superannuation funds. There are self-funded and partly funded retirees in the Association. Each category relates somewhat differently to the policies being proposed by the Coalition, the Opposition and the other political parties.

In general terms, *any interest rate increase will have an inflationary trend*, so the price of services and items on every person's budget will increase. For a retiree, the impact means that the same income stream must now be able to deliver more income. For older (75yrs+) retirees who depend on income from cash investments, rental from property, or a share portfolio, the increase in income adjustment may not be possible; instead requiring a reassessment in the spending pattern and change to lifestyle aspirations.

Superannuants may be less vulnerable, in that they can adjust their pension payments and maintain their lifestyle. This presumes that there is sufficient capital in the superannuation fund, and that the share market and managed trusts will perform adequately in the future to allow for the increase in pension payments.

Trustees of self-managed superannuation funds have specific needs. They are closely linked to the market for their income stream, and as such, will be considering the impact on their fund's operations.

The next question from the ABC Radio interviewer referred to the policy issues which are likely to influence the voting behaviour of self-funded retirees. Using the recently released A.I.R. Pre-Election Submission, the response had to be *finances and health issues*. For example, older retirees wishing to liquidate some of their capital assets are liable for capital gains tax, which they perceive depletes their capital. Capital asset sale can in turn affect part-pension eligibility, or change the

threshold for the Senior Income Tax Offset, if applicable. And health issues are also significant, relating to private health insurance premiums, waiting lists, access to health services and specialists (especially in the country areas).

This opened the discussion further, with the interviewer suggesting that retirees were 'asset rich, income poor'. This introduced the subject of reverse mortgages. Such products allow retirees to borrow money against their home equity. As more banks and financial advisors promote reverse mortgage products, retirees are making use of the benefits, whether to fix a leaking roof, renovate a poorly functioning bathroom, or replace the car for mobility, by accessing their home equity. I pointed out, however, that the interest rate on such a mortgage is higher than for a home loan. The current interest rate increase would not be immediately apparent to a retiree with a reverse mortgage. However with a higher rate of interest when compared to a personal or home loan, and with compound interest, the cost of such borrowed money was greater and only becomes apparent upon the sale of the retiree's home.

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