Keeping in Touch
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Making the most of lower interest rates

While lower interest rates are great for those with mortgages, it does not suit everyone and can make things a lot more difficult for those needing income in retirement.

Here we look at how you can make the most of the current low interest rate environment, whatever your stage in life and financial goals.

If you are an accumulator focussed on paying down debt and building wealth

With interest rates now at record lows, paying down your mortgage as quickly as possible is an excellent way to pay off your debt.

Keeping your repayments the same when rates go down, or even paying a bit extra each month, means you pay off more of your principal, which helps you to build up a buffer when interest rates inevitably rise.

Changing your payment frequency to weekly, instead of monthly, will also help you to use the magic of compounding to pay off your mortgage more quickly.

This is an excellent strategy for all your homeowners to consider, but speak to your financial adviser and mortgage broker before you make any big decisions, just to check your intentions will have the desired result.

If you are a pre-retiree looking forward to a worry-free lifestyle

With interest rates expected to stay low for some time, having an appropriate retirement plan in place as early as possible is a good idea for all pre-retirees.

This allows you to concentrate on the things you can control – such as increasing your contributions to super, paying off your mortgage or reducing your spending – all of which can help make a big difference to your income and expenses in retirement.

You may also need to adjust how you view risk, through increasing your allocation to growth assets, in order to give yourself a chance to generate enough income for a comfortable retirement.

Your financial adviser can talk you through this strategy and other options you have for putting everything in place for your retirement.

If you are retired and managing a careful budget

Low interest rates mean that cash investments and term deposits are now returning less than what many have received in the past.

Retirees should look at other income options, one of which is high interest cash accounts. These offer up to 1 per cent more interest than cash investments and term deposits, which can make a difference to your retirement income.

However, it's important to look at these carefully, as some require a minimum monthly deposit, or have a higher interest rate initially, that tapers off to a lower interest rate once the new customer 'honeymoon' period ends.

Depending on your risk profile, other investments that could help increase retirement income in the current market you could consider are a diversified bond fund, given bond yields are rising, or perhaps quality, high-dividend paying Australian shares.

Planning is key

With interest rates not expected to rise in the near term, it's important that you start planning now to help you pay down debt and grow your wealth.

According to the Association of Superannuation Funds of Australia (http://www.superannuation.asn.au/), you would need $729,000 at a return of 6 per cent over 20 years to generate $60,000 in income each year. Based on a return of 2 per cent, this figure rises to $1 million.

A qualified financial adviser can help you to design an appropriate financial plan to help you make the most of what you have in this low interest rate environment, whatever your stage in life.

Please contact our office today to make an appointment. If you enjoyed this article, feel free to share it with your friends and family.

Financial Services Partners Pty Ltd
Level 23, 242 Pitt Street, Sydney, NSW 2000, Australia
ABN 15 089 512 587 AFSL 237590
T 1800 006 216 W www.fspadvice.com.au

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