

MEDIA RELEASE

RETIREES SUFFER WITH LOWER INTEREST RATES AND UNFAIR DEEMING RATE

“The reduction in interest rates on retirement savings is having a major impact on retirees, but is made even worse for those receiving age pensions because of the unfair deeming rate set by the government” said Mr Wayne Strandquist, Acting President of the Association of Independent Retirees.

“The deeming rates are used by the Government as part of the income test when determining the age pension amount for retirees. Deeming assumes that financial investments are earning a specified rate of income, regardless of the actual income received” explained Mr Strandquist.

“Fixed interest investment in the form of bank savings accounts and term deposits often forms a substantial part of retirement savings, particularly in the latter years of retirement. Currently most retirees have an interest bearing bank account earning no more 0.5% interest and term deposits yielding less than 2%”, said Mr Strandquist.

“But, the Government uses a deemed rate of 1.75% interest on financial investments up to \$51,200 for a single retiree and 3.25% for assets above this amount to determine the amount of age pension to be received,” said Mr Strandquist.

Threshold amounts of financial assets		Deemed rate below threshold	Deemed rate above threshold
Single	Couple		
\$51,200	\$85,000	1.75%	3.25%

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

“Deeming rates are determined by the Minister for Social Services and are supposed to reflect returns available from a range of financial products. There have been 4 reductions in the RBA official interest rates since March 2015 and similar cuts to interest bearing deposits, but no changes to the deeming rates”, said Mr Strandquist.

When the current deeming rate was set to 3.25% in March 2015, the RBA cash rate was 2.25%. Since then, the RBA cash rate has been reduced by 55% to only 1.0%. Applying the same reduction to the deeming rate would reduce it to 1.4% above the threshold.

“Our Association acknowledges that the deeming rate is intended to provide incentives to pensioners to increase their overall income, but it is simply not possible to find low risk cash investments that earn anywhere near the deeming rate of 3.25%”, said Mr. Strandquist.

“The Association of Independent Retirees is calling on the Government to urgently reduce the current deeming rates in line with current bank deposit rates,” said Mr Strandquist.

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