THE AUSTRALIAN BUSINESS REVIEW

Lower costs, higher interest rates deliver a golden age for seniors

By ANTHONY KEANE

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Retired Australians are escaping the worst of the nation's inflation crunch, as working households experience much larger living cost increases than pensioners.

Higher home loan repayments have been a key culprit, pushing living costs up 6.2 per cent for employee households over the past year, well above the 3.7 per cent rise for Age Pensioner households, according to latest Australian Bureau of Statistics figures.

That tide could turn soon as interest rates begin falling globally. When the Reserve Bank of Australia eventually starts cutting its own cash rate, the mortgage relief for workers will also mean lower investment returns from bank deposits that have propped up many retiree households.

Financial strategist Theo Marinis said the cost of living had impacted everyone, but many over-60s had been "living the high life".

"They're getting more interest on their cash and their costs haven't gone up as much as young people paying rents and mortgages," he said.

Mr Marinis said only about 20 per cent of retirees were fully self-funded, with most relying on a mix of Age Pension payments and superannuation delivering them tax-free income.

"Don't bash the baby boomers ... the super system has given us the wealthiest retirees we've ever had," he said.

The ABS Living Cost Indexes, released last week, show self-funded retirees' living costs rose 3.8 per cent in the year to June 30, the same as Australia's annual inflation rate. It said mortgage interest charges rose 26.5 per cent over the 2023-24 financial year, but had been moderating as the RBA kept its cash rate on hold since last November.

"Mortgage interest charges remained elevated, compared to recent years, as some fixed-rate loans continued to roll over into higher variable rate loans," the ABS said.

Non-bank lender and fund manager Capspace's managing director, Tim Keith, said another RBA rate rise was still possible.

"For savers, returns have improved dramatically given the rise in interest rates in the past two years, which will support investors in everyday living and in retirement," he said.

Mr Keith said Australia's "sticky inflation" could force investors out of cash into higher-yielding investments, including private credit.

Investment manager Vado Private's director, Simon Arraj, said "rising living costs are impacting all Australians, especially employee households".

Mr Marinis said RBA rate cuts might not come until 2025 because "inflation remains stubbornly high", and while cuts would impact returns for retirees, they should stick with their long-term strategy.

"For the 15 years since the GFC they had been getting bugger all on their cash and fixed interest," he said. "The cost of living has gone up but it hasn't gone up as much for retirees.

"You have to take the good with the bad ... look at the horizon and don't get freaked out by the waves happening around you. Invest across all asset classes, according to your risk profile."

Canstar's group manager of research, ratings and product data, Josh Sale, said the RBA late last week reaffirmed the challenges it faced to bring inflation back to its 2-3 per cent target band, but there had been "minimal activity in rate changes from lenders".

He said volatility in global financial markets was having an impact. "This ... has shifted expectations around interest rates, with markets pricing in potential rate cuts much sooner than anticipated a fortnight ago."

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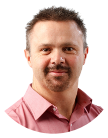

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