THE VOICE of Pensioners and Superannuants online

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Will term deposit rates going up be good for you?

ECONOMISTS all agree that interest rates (including term deposit rates) going up depends on the rate of inflation going up.

Last September, the Age Pension was increased by more than what pensioners had become used to over the last few years. This was due to what was called a ‘spike’ in inflation.

Economists are now divided into two camps: the inflation-spike-is-here-to-stay camp and the inflation-spike-is-temporary camp.

Both camps acknowledge that shortages of labour, shipping capacity, microchips, energy and more caused the spike.

Will these shortages persist and/or others arise, is the question.

If they do, the price of whatever is in short supply will continue to be high or go up.

If these shortages don’t persist, things will go back to the way they were: low inflation, low interest rates.

The fact that there are respected economists in both camps shows that nobody knows the answer to the question whether shortages will continue.

CPSA does not employ a single economist, so is not in a position to pick a camp.

But we will point out the effect of inflation on the rates of term deposits.

At the moment, the rate of inflation is 3.8 per cent. The rate for an annual term deposit is approximately a third of 1 per cent. This means that a term deposit of $100,000 loses 3.5 per cent (0.3%-3.8%=-3.5% or $3,500) of its purchasing power over twelve months.

Ten years ago, the rate of inflation was 4 per cent. The rate of an annual term deposit was 5.3 per cent. This meant that a term deposit of $100,000 gained $1,300 in purchasing power (5.3%-4%=1.3% or $1,300).

The difference is that by putting money into a term deposit *now* costs you, while back then it didn't cost you.

The psychology at work here is that ten years ago someone with an annual term deposit of $100,000 would get $5,300 and regarded this as $5,300 gained (so did Centrelink, unfortunately) and to be spent, not the $1,300 they actually got.

Ten years ago, because of inflation, a term deposit holder felt richer than they actually were.

Now, with nominal interest income of $300 the term deposit holder *is* and feels poorer but does not feel as poor as they actually are.

If the current inflation rate stays or increases even more, interest rates (including those on term deposits) will inevitably go up.

But if interest rates will necessarily outstrip the increased inflation rate is not certain.

Nothing in economics is.

The plan to build one million affordable homes!

A proposal has been made to create a 'Federal Housing Trust' that will construct one million homes through three types of targeted housing.

The first will construct 750,000 social housing dwellings, the second will build 125,000 new shared ownership homes that will offer first home buyers a new home for $300,000 and the third will construct 125,000 new public universally accessible rental properties.

In total, one million affordable and publicly owned homes would be created over the next 20 years, at a cost of over $23 billion over ten years, according to the independent Parliamentary Budget Office (PBO).

The Greens have said that if they win the balance of power in the next election, they will fight for the one million houses to be built. For this to happen, neither major party would win a majority of the available seats in the House of Representatives and would require Greens Members of Parliament to form a coalition government.

This happened in the 2010 election, when the two major parties were tied for 72 seats in the House of Representatives. This left the six elected independents with the task of forming coalitions with either major political party in order to create a government.

Although the PBO has noted a few caveats that could affect the cost of the home building plan, such as the unpredictable and sensitive speed of construction and the unknown impact on the Australian housing market.

Nonetheless it's refreshing to see a housing policy idea that looks outside the box.

According to the Australian Housing and Urban Research Institute, Australia requires more than 500,000 affordable dwellings to meet current demand. The current policy settings appear to be driving housing demand and house prices through the roof as investors take advantage of historically low interest rates, pushing ordinary Australians out of the housing market while waiting lists for social housing continue to rise.

Could you be in a cheaper super fund?

SUPER is getting cheaper, although annually total fees paid by Australia's 13.5 million super fund members still nudge $30 billion.

But average super fund fees dropped one per cent during last financial year, according to financial information group Rainmaker.

Rainmaker noted that this reduction happened "despite a ten per cent rise in superannuation savings last financial year and record-breaking investment returns".

In other words, super funds are becoming less dependent on commission-based fees. They're starting to charge to recover expenses plus a fee for their trouble of managing your super.

According to Rainmaker “super funds are working hard to become more efficient and lower their costs, but at the same time white-hot competition and regulatory scrutiny is forcing them to cut their fees as fast as they can”.

This is good news for the vast majority of working superannuation fund members who are too busy to worry much about their super. They generally are members of MySuper funds. These are funds employers pay contributions into on behalf of members who haven’t chosen a fund themselves. MySuper funds are default funds.

Even these are lowering their fees. This is likely to continue as non-performing MySuper funds are forced out. Their member balances will be transferred to MySuper funds that do perform.

Six in ten default MySuper funds cut their fees in 2020/21, according to Rainmaker.

But on average, they are still not as cheap as the best retail and industry funds where members have actually made a choice to have their contributions paid into these funds.

The moral is: it always pays to pay attention.

While industry-wide fees averaged one per cent, fees for the best default MySuper sector averaged 1.08 per cent after falling from 1.13 per cent in 2020.

Also, the fee gap between not-for-profit funds and retail funds is closing fast with the average total expense ratio for not-for-profit and retail funds now being almost identical, at 1.07 per cent and 1.08 per cent respectively.

The table below lists the lowest-cost default MySuper funds. AMG Corporate, which is on this list, operates AMG MySuper, which is an officially non-performing MySuper fund. While AMG MySuper may be cheap, it might be a good idea to switch to one of the others after checking their performance out.

Better still, find a fund that gives you the best return *after fees*!

10 lowest cost MySuper products open to the public in 2020-2021

Ranking	MySuper product	Total expense
1	UniSuper	0.65%
2	Bendigo SSSE	0.70%
3	AMG Corporate	0.70%
4	Virgin Super Employer	0.73%
5	QSuper Accumulation	0.74%
6	Suncorp ESB	0.77%
7	AustralianSuper	0.77%
8	AMIST Super	0.81%
9	Rest Super	0.89%
10	EISS Super	0.89%

The MySuper funds that failed the first annual performance test are:

- AMG MySuper
- Balanced (MySuper)
- MySuper Balanced
- MySuper Investment Option
- BT Super MySuper
- VISSF Balanced Option (MySuper Product)