

## **Lower For Longer**

New Zealand's measure of interest rates, the Official Cash Rate (OCR), was first introduced in March 1999 at a rate of 4.50%. Reviewed eight times a year, the rate has fluctuated to a high of 8.25% during 2007 and 2008 before the global financial crisis caused a collapse in interest rates around the world, and New Zealand's current rate of 2.25 per cent, an all time low.

The Reserve Bank of New Zealand aims to keep inflation between 1 and 3 per cent on average over the medium term, adjusting the OCR in order to maintain inflation at or near the target rate. The OCR impacts mortgage rates as well as savings, investment bonds and term deposits which are usually representative of the OCR. In previous years, when interest rates were around 7%-8%, banks and other providers could distinguish different accounts through interest rate offers, for example a cheque accounts paid interest at say 1% while a long term fixed interest deposit could be 7% p.a. However, as interest rates have squeezed into a tight band, providers can no longer offer such variance. Reviewing the current 1 to 5 year term deposits on offer shows that rates are between 2% and 3.80% depending on length of time selected, and that's before tax.

The problem for investors is that this low interest rate environment is expected to continue for longer than expected. Investors reliant on income from investments to support lifestyle have also been 'squeezed'. To achieve similar income compared to previous years, investors have moved from low interest rate investments into property, shares or bonds, and in doing so, pushing the New Zealand property market and the sharemarket to record highs. Many commentators are suggesting an overpriced house market, while sharemarket valuations are raising the eyebrows of seasoned investors.

If interest rates stay 'lower for longer', investors will need new solutions for retirement income. The Lifetime Retirement Income Fund, recently made available in New Zealand, may be one such investment that retirees could consider. Aiming to boost retirement income by paying a guaranteed 5% (in the hand) income for life, regardless of how interest rates move or investment markets fluctuate, the fund tackles the problem of low interest rates and the possibility of running out of retirement savings.

Investors waiting for an increase in the OCR could be waiting a while.

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