LOW INTEREST RATES- THE GOOD, THE BAD AND THE SENIORS

By Arthur Rottenstein, Registered Principal

The year 2008 was a turning point in the lives of many, mostly for one reason: there was a dramatic crisis of confidence in our credit market combined with a process called ”deleveraging” which meant companies were no longer borrowing to invest. Since 2008, a worldwide economic slowdown has had a negative effect globally. This has created a challenge for our government and especially for Federal Reserve Chairman Bernanke, whose job it is to find ways to stimulate the economy and get it back on track.

We are now living in a low interest rate environment, primarily a result of the Federal Reserve Board’s (commonly called "the Fed") decision to keep interest rates low in order to stimulate business and, of course, the general economy. So is this a good thing or a bad thing for seniors? As in most things in life, it depends on your point of view.

Let’s look at the positives. Chairman Bernanke’s action to keep interest rates low and, at the time of this writing, unchanged through 2014 if not into 2015, was purposeful. What does this mean to you? In a few words, *more discretionary income in your pocket.* Let’s say you had an average mortgage of 6% pre 2008. As an example, the principle and interest payment on a $250,000, 30 year mortgage at 6% would be $1491. If you were to refinance it now at 3.75% for the same 30 year term, the new payment would be $1154, a monthly savings of $337. While you may be extending your loan out additional years (depending on how many years you are into your original mortgage), you would now have an additional $337 a month to use for other essentials such as utilities, food, clothing etc for you and/or your family. Now, if millions of people similarly refinance, the savings would be substantial and could be held for the future, or could be re-circulated back into the economy through additional purchases.

Consider how this would help small and mid-size business- the engines that drive America. If business owners have the ability to borrow money at low interest rates, they can then refinance their higher interest rate loans, invest in the purchase of new equipment and other items their businesses need to thrive on and hopefully expand. This would further stimulate growth, create new jobs, and help to grow the economy. If you're looking to buy a car, or make any purchase on a time basis, the costs are much lower than they had been even a year or two ago. These are all positives.

Now here's the bad news: for seniors who are risk averse, traditional avenues of investments are those relatively low in volatility CD’s, for example. While principal is guaranteed, a lower rate of return is offered, thus the investor is accepting a lower return in exchange for perceived safety. With these investments now paying at an average of 1% or so or less, seniors who choose these investments find themselves in a struggle for more income versus safety of principle. For the longest time, interest income, in conjunction with pension payments and Social Security were the basis for monthly income, and those on a fixed income learned to budget their spending accordingly. It’s a battle between preserving income that now earns less and paying the ever increasing expenses each month. It is between the proverbial rock and a hard place, and one which no one wants to be confronted with.

So what is a person to do? Seeking out professionals educated in financial and tax matters, that have extensive experience and most importantly, that you trust, combined with the support of your family is a plan that makes sense in these times when opportunities can sometimes be elusive or even too good to be true. One might also speak with relatives and friends whose opinion they trust, to solicit a second perspective. However, unless you are knowledgeable in these matters, a financial advisor, an accountant, and other financial and legal professionals, can help to lower risk and increase reward to secure your financial future.

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