How interest rates could affect you

With interest rates increasing for the first time in many years, its effects will be felt by all Australians, not just those paying off their homes.
In this article we address how interest rate increases may affect you, depending on your circumstances, and possible ways to manage it.
Super members and retirees.

Super members

Interest rate rises can affect your super balance depending on how your retirement savings are being invested.
As opposed to increasing like a bank account that's paid a constant interest rate, the value of your super changes in line with the assets of the investment options in which your super is invested. So, it can go up and down.
While this can be unsettling, it isn't necessarily a cause for concern if you're a long-term investor who's still some years from retirement. From what we've seen in the past, share markets bounce back eventually.
Making changes to how your super is invested based on short-term volatility may therefore increase the risk that your super balance fails to meet your retirement goals.

Retirees

As for retirees, if their retirement savings are invested in defensive assets – such as fixed interest and cash – they may see an improvement in their returns over the longer term.

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Homeowners and potential homeowners

Homeowners

Unfortunately for homeowners paying off a variable interest rate loan, they will see an increase in their mortgage repayments when interest rates rise.

In an environment where interest rates look to be rising, you may want to consider fixing at least some portion of your mortgage. This may also give you a better handle on your finances each month to budget effectively for your other living expenses.

Prospective buyers

For people looking to get into the property market, the rate rises may provide greater opportunity as it often slows the growth of property prices. This is due to there being less demand and more supply.

It may however, impact your borrowing capacity as you'll need to show you can repay the loan based on the higher interest rate.

Investors

Shares

In terms of the impact on share markets, from what we've seen in the past, even if investors experience volatility in the short-term, markets eventually recover with time.

Rate rises can therefore provide investors with more opportunity to buy while prices are low.

Property

Rising interest rates can slow down the property market by reducing demand. They can also reduce the borrowing capacity for investors and borrowers.

Fixed interest investments

For those holding fixed interest investments such as government and corporate bonds, interest rate increases may reduce the value of bonds. This is because the capital value of bonds generally fall as interest rates rise.

Australian dollar

When interest rates fall, the Australian dollar usually weakens making Australian commodities and exports more affordable for offshore buyers.

But generally, when rates rise the Australian dollar strengthens. This is because overseas investors are attracted to a higher yield, driving up demand for Australian currency.

Savers

Interest rate rises are generally good news for people with savings or using savings to supplement another source of income such as a pension.

Term deposits offer higher returns too and can help to reduce volatility in an investment portfolio as they're less sensitive to interest rate changes.

How you can prepare yourself for future rate increases

When reviewing your finances, consider building a buffer for further rate increases that might affect your mortgage repayments.

It may also be worth looking at consolidating your debts and renegotiating your current interest rates to protect yourself from future increases.

When it comes to your super, see if you're still happy with the investment options you're invested in. If not, consider speaking with a financial adviser.

Their job is to help you with every aspect of your financial lifesavings, insurance, tax, debt—while keeping you on track to achieve your goals.

Source: IOOF

Should you have any question, please contact UNIQsol Wealth on 07 4192 8900 or email: finplan@uniqsol.com.au