
Retirees should review their income strategy in light of rate cut

Australia's 3.8 million retirees should review their income generating investment strategy in light of the RBA's decision to lower interest rates by 25bp today, according to Australian funds manager Plato Investment Management (Plato).

While beneficial to homeowners and people trying to buy a home, rate cuts also see Australian retirees receive less income from their floating rate income investment assets.

Australian overnight cash rates and 10-year government bond yields were already trading at historical all-time lows before the RBA's move today, with 10-year bond yields recently dipping below 1.5%.

Don Hamson, Managing Director of Plato, said some market economists were predicting that the Reserve Bank of Australia may cut two to three more times over the next year.

"Returns on cash, term deposits and products linked to bank bill rates will likely continue to fall under that scenario. Many income-related products, like income securities or bank hybrids are priced at a margin to bank bill rates, and we have already seen 90-day bank bill rates fall more than 60 basis points this year, which is already crimping their income.

"Retirees living off cash-linked income will struggle to make ends meet. So, it is very timely for retirees to reconsider their income generating asset mix. Thankfully, given the somewhat surprising election result, retirees can continue to bank on receiving franking credits from Australian share investments."

Dr Hamson notes that at a time when interest rates are hitting all-time lows in Australia, dividends paid by Australian companies have never been stronger. (The Plato Australian Shares Income Fund has distributed a record amount of dividends this financial year, having distributed a 10% cash yield, plus over 4% of franking credits, in its September, December and March quarterly distributions, giving gross distributions after fees of more than 14%.)

"Ironically, the ALP threat to franking has actually caused some companies to flush out excess franking credits prior to the end of this financial year, providing Australian income investors - including retirees - with a record level of dividends."

However, not all investors and retirees have benefited from this dividend bonanza. Many, retirees in particular, need to reassess their income generating investments to ensure they are invested in the best possible income generating equities, not just the big four banks and Telstra, Dr Hamson says

"Dividend increases, for example, have been largely concentrated in the resources sector, with traditional income stocks like the big four banks and Telstra either maintaining or cutting dividends.

"A cut in interest rates - while it won't lead to an increase in dividend income - will also lead to increased investor demand for dividend paying stocks, raising the capital value of some."

Dr Hamson adds that retirement income offerings tended to be a one size fits all approach. With over five million baby boomers moving into retirement, the need has never been greater for new and innovative retirement income solutions for Australia's retirees.

"Active dividend income strategies should be a key part of the discussion about retirement income, given that dividend income can be four times that of term deposits."

Plato is a leader in retirement income generation and highlights how active dividend investing can provide a regular income plus capital gain from the underlying share. Its listed investment company (LIC), PL8, is the only LIC to pay regular monthly dividends.

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About Plato Investment Management Limited

Plato Investment Management Limited (Plato) (ABN 77 120 730 136) is an investment management firm specialising in maximising retirement income for pension phase investors and SMSF investors.

Plato was founded in Sydney by Dr Don Hamson and currently manages over \$4.9 billion in FUM (30 June 2018). Plato is majority owned and operated by its investment staff and supported by its minority equity partner, Pinnacle Investment Management Limited, a leading multi-affiliate investment management firm. For more information please visit www.plato.com.au

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