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Een sterk voorbeeld van de impliciete kosten van het redden van de banken.

Fed's Low Interest Rates Crack Retirees' Nest Eggs

By [MARK WHITEHOUSE](#)

PORT CHARLOTTE, Fla.—Forrest Yeager, a 91-year-old resident of this seaside community, had been counting on his retirement savings to last until he died. The odds are moving against him.

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Jason Henry for The Wall Street Journal

Jim and Eileen Keller have \$200,000 remaining and fear they will eventually have to rely solely on Social Security.

With short-term bank CDs paying less than 1%, the World War II veteran expects his remaining \$45,000 stash to yield just a few hundred dollars this year. So, he's digging deeper into his principal to supplement his \$1,500 monthly income from Social Security and a small pension.

"It hurts," says Mr. Yeager, who estimates his bank savings will be depleted in about six years at his current rate of withdrawal. "I don't even want to think about it."

Mr. Yeager is among the legion of retirees who find themselves on the wrong end of the Federal Reserve's epic attempt to rescue the economy with cheap money.

A long spell of low interest rates has created a windfall worth billions to banks, mortgage borrowers and others it was designed to benefit. But for many people who were counting on their nest eggs, those same low rates can spell trouble.

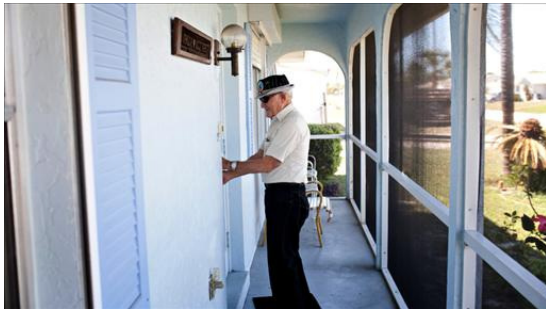


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Mr. Yeager's struggle highlights a nagging dilemma facing Fed Chairman Ben Bernanke. The longer the central bank keeps interest rates low to stimulate the economy, the more money it pulls out of the pockets of millions of savers. Among the most vulnerable are retirees, who have few options to restore lost income on investments built up over entire lifetimes.

In 2009, according to the most recent data available from the Labor Department, average annual investment income for the 24.6 million American households headed by people 65 and older amounted to \$2,564. That figure is down 34% from 2007, and is the lowest since 2003.



WSJ's Mark Whitehouse explains how low interest rates have meant big profits for banks, they are hurting small investors, including seniors who are seeing their cash earn minimal interest.

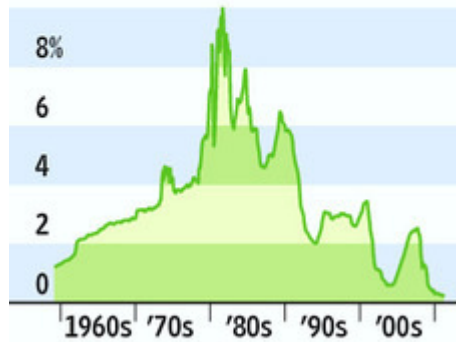
A recent survey by the Employee Benefit Research Institute indicated that one in three retirees had dipped deeper than planned into their savings to pay for basic expenses in 2010.

Most economists agree that the Fed's interest-rate policies, together with other measures, have helped avert a much deeper economic slump. Still, the situation for savers has become progressively worse since the Fed first lowered its interest-rate target close to zero in late 2008.

As of January, the average interest rate paid on relatively safe vehicles such as short-term savings accounts, time deposits and money-market funds stood at only 0.24%. That's one-tenth the level of late 2007 and the lowest on records dating back to 1959. Such depressed rates don't come close to compensating for inflation, which was running at an annualized rate of 5.6% in the three months ended February.

Costly Decline

Weighted average interest rate on deposits, CDs, money-market funds and other relatively safe, short-term investments



Source: Federal Reserve Bank of St. Louis

"Americans who have done everything right, have worked hard, saved their money and stayed out of debt are the ones being punished by low interest rates," says Richard Fisher, president of the Federal Reserve Bank of Dallas and a voting member of the Fed's policy-making open market committee. "That state of affairs is not sustainable for a long period of time."

The pain inflicted on savers could have political repercussions. Retirees are among the country's most active voters, with the power to influence a wide range of issues, such as who will bear the burden of fixing the federal government's finances and whether politicians should rein in the Fed.

Over the past few years, seniors have taken a conservative turn: In the 2010 elections, Republican congressional candidates attracted 59% of the over-65 vote, compared to 48% in 2008, according to exit polls—a larger shift than that seen among the general populace.

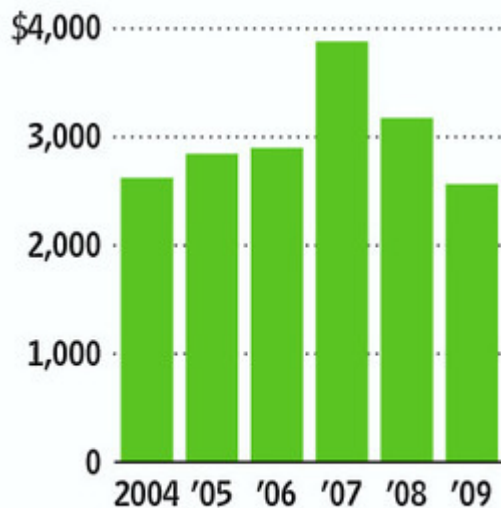
To be sure, many retirees have no savings at all or don't recognize the extent to which interest rates affect them. The subject isn't at the top of their list of concerns, which include health-care costs and Social Security benefits, says David Certner, legislative policy director at the AARP. Still, he says, "we hear a lot of complaints from people who were counting on a certain return from their fixed-income investments."

Low rates don't just hurt retirees. They also penalize people of any age hoping to build up funds for the future, and discourage rainy-day savings that could make U.S. consumers more resilient to job losses and other financial jolts. Americans' net contributions to their financial assets, such as bank and 401(k) accounts, amounted to 4% of disposable income in 2010, according to the Fed. That's the lowest level since it began maintaining records in 1946—except for 2009, when people actually pulled money out.

A Fraying Safety Net

With interest rates at their lowest level in decades, retirees are losing a source of income and others are losing an incentive to save.

Average investment income, including interest, dividends and rent on investment properties, for Americans aged 65 and older



Americans' contribution to their financial assets, as a percentage of disposable income



Sources: Labor Department (investment income); Federal Reserve (contributions)

By contrast, the Commerce Department's broader measure of personal saving has risen, to 5.8% of disposable income in 2010 from a low point of 1.4% in 2005. That's in large part because it counts reductions in personal debt, such as mortgages and credit-card balances, as savings. For example, paying down a credit card with a 20% interest rate is a better way to save money than taking out a bank CD yielding 1%. But defaults, rather than saving, have driven much of the decrease in debt.

The financial strain is acute here in Port Charlotte and neighboring Punta Gorda. Located on Florida's southern Gulf Coast, the area has the nation's highest concentration of residents aged over 65. They live in disparate circumstances, from trailer parks and low-income housing to high-end homes in Punta Gorda Isles, a waterfront community on a point south of Charlotte Harbor.

Among the Isles' relatively affluent residents, low interest rates present more of an annoyance than a hardship. But many fret about their nest eggs, and some are frustrated with what they see as policy makers' failure to appreciate the costs of stimulus efforts, even if they agree that those efforts are necessary.

"It makes you kind of feel like the forgotten generation," says Roger Cohen, a 66-year-old who retired to the Isles from Boston, where he headed a national coffee-service company. He says he supports the Fed's efforts to stimulate the economy by lowering interest rates, but "you have a lot of folks who feel there's a lack of fairness."

John Lehman, a 70-year-old former hardware entrepreneur who lives on the other side of the golf course from Mr. Cohen, has less sympathy for what he calls "those idiots in Washington, D.C." He says he's keeping about 80% of his considerable investments in stocks, despite the shock he suffered during the financial crisis. He hopes his returns in equities will allow him to live without dipping into his capital.

"That's why most of us are in the stock market, because there's no place else to go," he says, noting that he would happily move into safer CDs if he could get a better rate. "I hope my assets don't run out before I die."

Mr. Lehman's taste for stocks goes against the traditional advice of financial planners, who urge older Americans to keep a majority of their assets in relatively safe, fixed-income investments. But more retirees are getting into riskier positions as they try to avoid running out of money, says Neil Kasanofsky, a financial adviser in Port Charlotte who has a largely elderly clientele.

"The fear is palpable at this point in their lives," he says. "Given the low level of interest rates, you're hard-pressed to tell someone to get into bonds or 10-year CDs."

To stay on track, even the wealthy are cutting back on some luxuries, such as golf-club memberships. John Benande, a board member at the St. Andrews South Golf Club in the Isles, said the club has scrambled to attract new members as the number of people quitting each year has increased sharply. The club charges an annual membership fee of about \$4,000 for families.

"You do spend money differently, even if you have it," he says.

Some people in the Isles are in deeper trouble, says Marianne Principato, manager of the Port Charlotte office of Consumer Debt Counseling Inc. In some cases, she says, retirees took out mortgages and ran up credit-card debt on the assumption that their interest income would help cover the payments. But then the payments on the debts went up, and their interest income fell.

"They're losing their investment income precisely at the time when they need it most," she says, noting that the area's older people tend to hide their troubles as long as they can. "People are very prideful. It's small-town stuff."

The Cultural Center of Charlotte County, a sprawling, collection of buildings nestled among the hospitals and housing complexes of central Port Charlotte, offers a picture of how the less fortunate are faring.

The nonprofit center, which includes a cafeteria, gym, theater, thrift shop and space for everything from income-tax preparation to crazy-hat bingo, gave refuge to hundreds when the area suffered a direct hit from Hurricane Charlie in 2004. Now, its 50-cent coffees and \$2 breakfasts are a lifeline for local seniors trying to get by.

Donna Barrett, the center's marketing manager, says traffic keeps increasing as more people find themselves short of money. In January and February, revenue at the cafeteria was up about 15% from the same period last year.

Following a recent investment seminar at the center, Jim and Eileen Keller, a couple in their mid-60s, reviewed their finances. They had moved to the Port Charlotte area in search of a better lifestyle after both took early retirement from a Michigan phone company. Lately, their financial prospects have dimmed.

"I'm scared to death," says Ms. Keller. "At one point we thought we'd have a little money to leave our kids. That ain't gonna happen."

The couple's savings took a hit in the stock-market crash. And unless they can improve the return on their remaining \$200,000, they're afraid they'll have to rely solely on Social Security.

Ms. Keller says they've been cutting their expenses as much as they can. She shops at the cultural center's thrift shop instead of department stores. She tries not to spend more than \$20 on any single quilting project, as opposed to the hundreds of dollars many of her fellow quilters can spare. The couple avoids going to the movies.

"It bothers me, because we did all the right things," she says, noting that their \$7,500 bank account paid \$4.84 in interest last year. "We weren't frivolous. We saved our money. And still we get hit like this."

Later that day, Mr. Yeager was tucking into lunch at the cafeteria, where he eats about three times a week. Born and raised in Indiana, he says he served in the signal corps under General George S. Patton in World War II, and then spent 25 years working at Eastern Airlines in Miami, mostly as an airplane cleaner.

He says he retired in 1982 with ample savings, but he and his wife, Vivian, "lost our butt" in the stock-market crash of 1987. After that, they stashed their savings mainly in bank CDs, which yielded as much as 7% prior to the financial crisis. His wife died of a heart attack shortly after the 2004 hurricane.

Mr. Yeager says he's still betting on dying before his money runs out. He and a neighbor are planning a trip to Las Vegas in May.

"I'm too old to work," he says. "I don't think I'm going to make it that far anyhow."