## How the Current Low Interest Rates Can Affect Your Retirement

Jod Id: **BHFM FMO Blog Post 2 06-21-2021**  
  
  
**5 MIN. READ**

We are in interesting times from a financial standpoint. When you look at the global economy and current political climate, it is obvious that things are changing, which will no doubt influence retirement. Indeed, we are slowly rallying in the wake of a pandemic, and the financial climate, with current low-interest rates, is tenuous at best. During the course of the pandemic, we saw businesses shutter permanently, massive layoffs and unemployment, people lose their homes, and businesses of all sizes struggle to survive.

In an effort to offset some of the financial and economic difficulties brought on by the pandemic, the federal interest rate is standing at an almost unheard of 0-0.25%. The last time rates were this low was in 2008. According to the Fed, the plan is to keep interest rates at 0% until 2023 to increase the GDP.

This can have a significant impact on your retirement planning. However, with flexible strategies allowing for ease in making changes, you can work it to your advantage. At [Company Name], we will work with you to develop a retirement plan you can live with. We’ll discuss your needs, your lifestyle, and your financial habits to create the best plan for you.

But how exactly do low interest rates affect retirement? There are a few notable ways you can see an impact on your savings.

### Lower returns for some products

Low interest rates mean lower returns for government and corporate bonds. These products make up 23% of public pension plans on average, and some [government bonds or pensions](https://reason.org/commentary/why-low-interest-rates-are-bad-news-for-public-pension-plans/) have a fixed interest rate, which creates a flurry of interest when interest rates are low. However, when interest rates go back up, interest in the bond market tends to wane.

Government and corporate bonds that don’t have a fixed interest rate will see the bond price fluctuate in concert with the interest rate. For instance, when interest rates go up, bond prices tend to fall. When interest rates drop, the market responds by pushing bond prices up.

### Stocks perform well – For a while

In the short term, low interest rates mean that stocks perform well. In 2020, the [S&P 500](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html) had an annual return of over 18% while Treasury Bonds had a return of 11.3%. (Again, the last time the interest rates dropped this low was in 2008.) The S&P 500 quickly recovered from -36.5% in 2008 to 25.9% in 2009, and this then had an inverse effect on US Treasury Bonds dropping from 20% to -11% over the same time period.

Simply put, higher interest rates tend to have a negative effect on the stock market while lower interest rates tend to boost stock for a while. When the Fed lowers interest rates, banks decrease their consumer loan rates, and this can have a trickle-down effect on stock prices.

### Stock prices don’t last long in a low-interest-rate climate

The boost to stock performance that comes from low interest rates isn’t a long-term effect. It eventually levels out and stocks drop again. However, this can go on for a long time. It could be years before interest rates return to normal. This means that stocks could rally for a while. So, it is in your best interest to take advantage of the perks while you can and reap the benefits of this unique financial climate. The experts at [Company Name] can help you decide on the right plan for you and your goals.

The last time the interest rates dropped to 0, they didn’t go back up until 2015. By 2015, S&P 500 annual returns had dropped to 1.38% with an uneven performance from one year to the next over 2008 to 2015.

However, the market is affected by many factors that can drive stock prices up or down. Interest rates play a small part in it. Other factors that could impact a stock’s performance include:

* Supply and demand.
* Investor behavior and trends.
* The economy.
* The corporation’s performance.
* Politics.
* Long-term and short-term investors.
* Dividends.

### Low interest rates boost spending – and result in less retirement savings

Low interest rates typically boost consumption because credit card rates are low. Plus, savings accounts are not compounding as much interest. This creates a phenomenon where people spend more and save less for retirement. Experts predict that as many as [35% of people](https://www.fool.com/retirement/2020/02/19/youll-be-shocked-by-how-many-americans-have-no-ret.aspx) don’t have anything put aside for retirement. This percentage could get worse.

This is the downside to low interest rates. Or it can be. If you remain aware and don’t fall into the spending trap, you can continue to save. In fact, you may even save more if you watch your stocks and bonds carefully, taking advantage of spikes. You can move your money to more stable products and ride out the low interest wave while saving for retirement.

The good news is that low interest rates make it easy to pay off your mortgage faster or move to a smaller home with more affordable payments once the kids leave. It can also open the door for a number of purchases like home remodeling loans, dream vacations, or sending the kids to college.

At [Company Name], we can show you how to make the most of your money with financial planning for your retirement and more. We always work in your best interest to develop strategies that are right for you, so [get in touch](https://fta-ria.com/contact/) to learn more about how we can help you.

### References:

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**Meta Keywords:**  
  
Low interest rates, retirement