

The impact of low interest rates on a common risk measure

You may have been aware that the Reserve Bank of Australia (RBA) has set the cash rate at its lowest level in history, currently 0.10% (4th May 2021). With all superannuation funds, and therefore all members, having some of their account balance held in cash we will outline below how low interest rates have affected the Standard Risk Measures (SRMs) for some investment options and what this means for you.

One of the measurements that superannuation funds, including smartMonday, use to measure the risk of any investment, including cash, shares and other investments, is the SRM. The SRM is a regulatory requirement that is intended to provide members with a risk label that can assist in comparing investment options both within and across various superannuation funds. The measure is intended to be intuitive and simple. However, it can sometimes label low risk investments, such as cash, as high risk due to unusual circumstances for example, low cash rates. Unfortunately, the post COVID-19 investment environment sets the stage for this circumstance.

To understand how interest rates have affected certain investment options requires a little understanding of what the SRM is, please bear with us!

What story does the SRM try to tell?

The SRM assigns a risk label from very low to very high, and a corresponding risk band from 1 to 7 for each option as shown below. This is based on the estimated number of negative annual returns over the next 20-year period.

Risk Band	Risk Label	Estimated number of annual negative returns over any 20-year period
1	Very Low	Less than 0.5
2	Low	0.5 to less than 1
3	Low to Medium	1 to less than 2
4	Medium	2 to less than 3
5	Medium to High	3 to less than 4
6	High	4 to less than 6
7	Very High	6 or greater

Source: APRA

The table below shows examples of various asset classes and their corresponding SRMs in the smartMonday PRIME PDS effective from the 1st of June 2021:

Option	Risk Band	Risk Label	Estimated number of annual negative returns over any 20-year period
Aus Shares	7	Very High	6 or greater
International shares	7	Very High	6 or greater
Balanced growth	7	Very High	6 or greater
Aus Fixed Interest	7	Very High	6 or greater
Cash	7	Very High	6 or greater

Source: Aon

In the final row of this table you might have noticed something odd! Cash, a very safe and typically stable investment is measured to be high risk – how can that be? With the cash rate currently set at 0.10% and the Reserve Bank of Australia not expecting to increase it before 2024,¹ assets which are categorised as cash, such as your standard bank account or 'term deposit', are no longer earning as much interest as they had in previous years. Taking a step further, a negative return isn't a big step from the current 0.10% and since the SRM measures this possibility it isn't that surprising that the SRM of cash has increased dramatically. Many, fixed interest markets (government and corporate bonds) are in a similar position and finished 2020 with the yield on a bond, near similar historic lows.

In the table, you will also notice that cash and international shares have the same risk band and risk label. Does this mean that members should view cash and international shares as similar? We don't think so!

Whilst the SRM is an important factor when considering risk, it is not a complete assessment of risk. For example, it does not explain the potential size/magnitude of negative annual returns. It is important to take a holistic approach when thinking about your investments as well as understand risk in the context of your individual goals. Whether you are what we call a Tuesday member (aged 20-30) and starting your career or are approaching your retirement weekend, everyone should consider risk in a way that matters to them.

For example if you are at an early stage in your career you may want to consider the risk of your investments not growing or if you are approaching your retirement weekend you may want to think about the risk of outliving your super. As always, it is important to do research before deciding about your investments or simply speak to one of our [smartCoaches](#)!

Need to [learn more about investment basics](#), deep dive into [investment risk](#), or would like to review the investment options available, everything is on our website in the [investments section](#).

Just like with all investments, returns are not guaranteed, and past returns are not an accurate predictor of future returns. You may want to consider speaking with your financial adviser or contact one of our [smartCoaches](#) who can help you understand your contributions, insurance and investments– at no extra cost.

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<https://www.rba.gov.au/publications/smp/2021/feb/overview.html>

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