Stimulus Plan Hits Risk-Wary Seniors

CDs, bonds, saving accounts are paying diddly squat, analyst says

by: Michael Zielenziger | November 16, 2010

While American seniors try to live off their interest-bearing savings in uncertain times, they may well find themselves unintended victims of the Federal Reserve System as it moves aggressively to push interest rates lower

The Fed hopes that by buying an additional $600 billion in bonds it will inject the economy with a huge supply of cheap money that will spark stronger economic and job growth. This second round of monetary stimulus, known as "quantitative easing," or QE2, is designed to force long-term interest rates lower, making companies more likely to expand their business.

But there is another side to the equation: Risk-averse seniors who rely on the interest from CDs, money market funds or long-term bonds to supplement their Social Security income will likely find it more difficult to get a decent rate of return.

"If there is a rate of return called 'diddly squat,' that is about what these investments are paying," says Pamela Villarreal, senior policy analyst for the National Center for Policy Analysis, an independent research organization based in Dallas.

"Low rates of return may have seniors putting their money under the mattress," she says, as they did during the Great Depression of the 1930s. Bank failures were commonplace in those times, although today there is federal deposit insurance to protect individuals' savings, which did not exist then.

The Fed acted because the overall national economy hasn't really entered a sustainable growth trajectory, and the prospects for an additional round of direct government spending, like the Obama stimulus program of 2009, are dim — especially now that the GOP will control the House of Representatives in the next Congress.

"Nobody talks about the problem of seniors who don't know where to put their money," Villarreal says. "The interest rates for CDs are shockingly low. This may be great for people who want to buy a house or get capital for their business, but if you have risk-averse seniors who need a place to put their money, they really have no place to go."

Villarreal suggests that older Americans should lose their inhibitions and reliance on conservative fixed-income bonds and consider investing in low-fee stock mutual funds or stock index funds, which are designed to mirror the overall performance of the stock market.

"If you are 65 now, you may have 35 more years to invest, so think of yourself as a long-term investor," she says. "Get out of safe mode