

The Financial Crisis and your Super

Global financial markets and economies have been hard hit by the ongoing financial crisis. In efforts to stabilise markets and restore confidence, world governments have united to devise financial aid packages to kick-start their economies. Last month, the Australian Government announced a deposit guarantee arrangement to safeguard investors' money from loss and inaccessibility. This Informer highlights how the deposit guarantee will work and how super funds are adjusting to the financial crisis.

What is the Government Deposit Guarantee?

World financial markets have experienced significant volatility over the past year due, in part, to the ongoing fall out of the global financial crisis.

With the squeeze on credit facilities and cashflow, the sharemarket has seen considerable outflows of money, as investors have sought safe haven investments, such as fixed interest and cash.

To try to resolve the financial crisis, free up cash flow and restore stability, world governments have devised various financial aid packages.

On 12 October 2008, the Australian Federal Government announced that it would guarantee consumers' deposits and wholesale funds for all Australian banks, Australian subsidiaries of foreign-owned banks, building societies and credit unions.

This guarantee is fee-free for amounts up to \$1 million, with amounts over this limit to be charged a fee of between 0.7% and 1.5% for the Government's backing.

The Government proposes to guarantee these monies for a period of three years from 28 November 2008.

Are super funds included in the guarantee?

Generally speaking, no. However, this is a bit of a grey area. Under the arrangements announced by the Government, super funds, mortgage funds, managed funds and cash management trusts are not included in the guarantee. However, some super funds include cash management trusts, into which contributions can still be made. Therefore, it's best to check with AXIS or your adviser just to be sure.

What effect has the guarantee had?

While a level of confidence has been restored among investors and the marketplace, there are many investors who have been hard hit by the guarantee.

Shortly after the Government's announcement of the package, mortgage funds, managed funds and super funds saw significant redemptions, as investors moved their money out and into cash deposit facilities with banks and other financial institutions covered by the guarantee.

The outcome has been that many mortgage funds have now been frozen, meaning investors cannot currently access their money. This has had a dramatic impact on many retirees and mum and dad investors, who use these types of funds for daily expenses such as groceries and rent.

A considerable number of mortgage funds have also been closed down, due to the difficulties in meeting investor redemptions.

Will super funds freeze their assets?

No. Under super law, funds cannot freeze member accounts. Therefore, provided you meet a condition of release, you can still access your super. If you're unsure about whether you meet a condition of release, please contact our Advisory Group or Technical Services Team.

How have super funds been impacted?

With significant outflows from the sharemarkets continuing and the current situation regarding mortgage funds, many super funds have had to review their strategic asset allocation policies. This is to ensure that member contributions can still be invested appropriately and Trustees can continue to act in the best interest of all members.



Most super funds with mortgage funds that have closed or frozen, are now re-directing member contributions into cash. Therefore, asset allocation weightings have been adjusted to allow for higher exposure to this asset class.

In terms of rolling over money, super legislation requires all rollovers to occur within 30 days from receipt of the request. However, given the current financial climate, leading industry body, ASFA is requesting a temporary relief from APRA on the 30 day rule, to allow super funds to manage these requests.

How has AXIS responded?

In terms of AXIS portfolios, where investment choice is offered, we've restructured all of our portfolio asset allocations and removed any exposure to mortgage funds. In addition, all of our portfolios have been reviewed against the asset allocation recommendations of our research house, van Eyk.

Given the right investment choices being available, this allows for higher weightings in asset classes that have the most likelihood of growth through the next market cycle.

Therefore, when you receive our portfolio updates in the coming weeks, you'll notice lower asset allocations for shares and property and higher strategic exposures towards cash and fixed interest securities.

When you receive our update – either via email or post – we urge you to respond promptly. At all times, your financial affairs are of the highest priority to AXIS. Therefore, we'll need to review your current investment strategy and risk profile, to ensure it's still relevant to your needs.

Should I continue making extra contributions?

We've received a lot of enquiries about whether this is a prudent time to stop making additional contributions, given the market downturn.

History shows us that downswings in the market can actually present a great opportunity to invest. This is because your money buys you more of an investment in different assets, as the price of these assets is usually lower. However, when the market rises again, you'll have greater exposure to companies which may offer you positive financial rewards in the longer term.

What's the market outlook?

The government aid packages that are being rolled out around the world will take some time to implement. Therefore, their impact – whether positive or negative – will also take some time to play out.

We believe these packages will go some way to restoring confidence in the marketplace. However, until the full impact of the packages is understood, investors are likely to remain nervous.

Therefore, markets will continue to be volatile for the foreseeable future, until signs of global economic stability are apparent.

Ask AXIS Financial Group

At times like these, it's easy to feel the impact of investor nerves and panic sell. However, market downturns like these have arisen many times before. The end result is that markets have always corrected themselves.

If you're uncertain about your investment strategy or what's going on with the markets, please give us a call, prior to making any decisions.

Our Advisory Group or Technical Services Team can be contacted on (08) 9426 5800 or 1800 111 299 or you can email us at: mail@axisfg.com.au.

If you have any questions regarding the information in this bulletin, please contact your adviser:

Telephone:	08 9426 5800
Fax:	08 9426 5850
Freecall:	1800 111 299
Email:	mail@axisfg.com.au

Disclaimer:

This information is intended to be of a general nature only and is based upon information believed to be reliable and received from sources within the market. No representation is given, warranty made or responsibility is taken as to the accuracy, timeliness or completeness of this information and AXIS Financial Group Pty Ltd will not be liable to the reader in contract tort (including for negligence) or otherwise for any loss or damage as a result to the reader relying on any such information (except in so far as statutory liability cannot be excluded).