Superannuation in the context of the global financial crisis

Prepared by the Superannuation Stakeholder Group[1] 3rd February 2009

For many people, after their family home, their superannuation will be their largest and most valuable asset.

Decisions about superannuation can have a significant impact on an individual's income and standard of living in retirement. Before any decisions are made it is important that people take the time to understand how the performance of the markets impacts over time on the returns of their superannuation fund.

Over the coming month, many Australians will receive their interim superannuation statements. It is important that they review the performance of their superannuation fund in the context of their own long-term objectives.

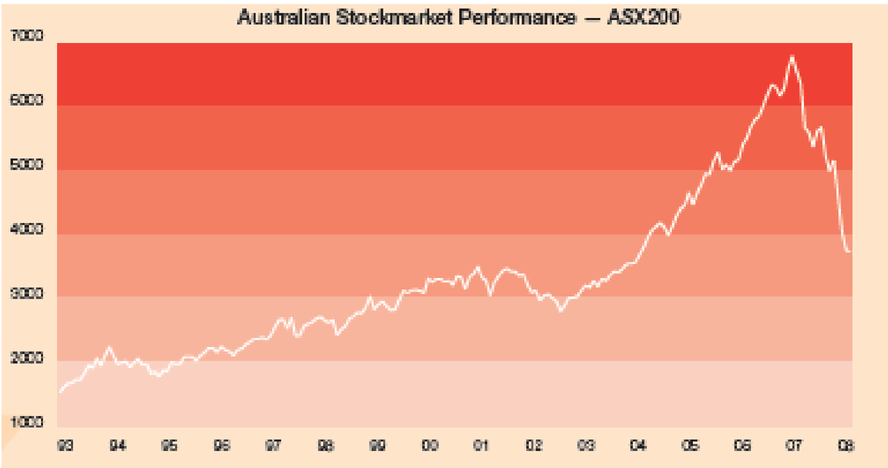
Financial markets:

As at 31 December 2008, the value of the S&P/ASX 200 has fallen by 40% over the preceding year. This market downturn has wiped $680 billion off the value of Australian shares and is consistent with the experience of other stock markets around the world.

Country - Index	1-year Return Base
UK – FTSE 100	-31.3%
US – S&P 500	-38.5%
France – CAC	-42.7%
Germany – DAX	-40.4%
Japan – Nikkei 225	-42.1%

Table: Decreases in international stock markets 1/1/2008 – 31/12/2008

In addition to the overall fall in the value of the S&P/ASX 200 in the last twelve months, the market has also experienced unprecedented volatility.



[1] The representatives of the Superannuation Stakeholder Group who have participated in the production of this fact sheet are Association of Financial Advisors (AFA), Australian Institute of Superannuation Trustees (AIST), Australian Securities Exchange (ASX), Association of Superannuation Funds of Australia (ASFA), CPA Australia, Financial Planning Association (FPA), Industry Funds Forum (IFF), Industry Super Network (ISN) and Investment & Financial Services Association (IFSA).

Market Volatility:

Volatile periods and market downturns are part of the nature of investment markets. Since 1900 investors have experienced 32 significant downturns and 25 significant upswings.

The most recent downturns in the early 1990's, 2000 (the "tech wreck") and 2001 (Sept 11 terrorist attacks) have been short-lived and the market bounced back very quickly. Whereas, the market downturns in 1929, 1973, 1980 and 1987 were more prolonged and pronounced, with share prices staying depressed for a longer period of time.

As at January 2009, the market had already experienced 14 months of poor performance since the market highs of November 2007, and most economists expect prices to stay depressed for some time, reflecting the cycle of the larger market downturns.

Because it has been around 20 years since a significant market correction and "bear" market, many people have come to take for granted the high returns of recent years. Consequently, some people may think that the stock market always goes up, and when there is a market correction, it is relatively minor and short-lived.

Effect on superannuation:

Members of superannuation funds are generally able to choose from a range of investment options within their fund.

Some of these investment options are designed specifically to diversify investments across asset classes and investment managers – for example, shares (both Australian and international), cash (deposits), fixed interest (bonds and floating rate notes), property (listed and unlisted), infrastructure and alternative investments (private equity and hedge funds).

Investment options can often be categorised as conservative, balanced, growth or high growth funds, depending on the risk profile of the underlying assets. A typical balanced option invests approximately 65% to 75% of their funds in growth assets, such as shares (a combination of international and Australian shares) and property and often some allocation to alternative assets. The balance is invested in defensive assets that are mainly fixed interest and cash.

Research shows how the average balanced portfolio is invested[2]:

Shares	58%
Cash	3%
Fixed Interest	18%
Property	10%
Alternative Assets	11%

June 2008, Chant West Multi-Manager Quarterly Survey

Over the course of the year to 30 June 2008, global share markets decreased in value, returning -21% while Australian share markets fared better at -14%. In the same period cash returned around 7%.

As a result of these market conditions many 'balanced' portfolios produced negative returns that averaged about -7% for the year.

When will markets recover?

As discussed above, the Australian stock market has experienced other significant market downturns. In every case the stock market has recovered and it's expected that it will recover this time too. The main uncertainty is the timing of such a recovery – how long will it take for values to climb back to the extraordinary highs of November 2007?

[2] Figures from superannuation researcher ChantWest

A recent survey shows that most Australian's understand that markets do recover, but that this may take some time. A quarter (26%) of respondents said they believe it will take 12 months for the market to fully recover and over a third (39%) said they believe it will take 2-3 years[3].

Every market downturn is characterised by a point in time when share prices fall too far and assets become undervalued. At this time professional investors start to buy back into the market which pushes share prices up and builds overall market confidence. When other investors see market confidence return, they too invest…and so begins the recovery.

Broad consequences for Australian superannuation members:

The Superannuation Guarantee has been in place for 16 years and as such $1.1 trillion of Australians' superannuation assets are invested in the financial markets. This means the impact of the current market volatility is being felt by more Australians than would have been the case in other previous significant market corrections.

Superannuation is a long-term investment:

It is not unusual for 'balanced' portfolios, for example, to produce an annual negative return every 5-6 years. However, balanced portfolios have historically provided much higher returns than those portfolios with a lower exposure to growth assets, such as shares, and more exposure to defensive assets, such as cash and fixed interest.

Superannuation has performed well over the long-term, notwithstanding the poor performance of the markets over the last 12 months.

Even though some people nearing or in retirement may not look at superannuation as a long-term investment, most people will spend more than 15 years in retirement. Average life expectancies are increasing – currently 79 years for males and 84 years for females. Over time, many people (including retirees) will see superannuation assets increase in value.

Changing investment strategy:

Members of superannuation funds should think carefully before they make changes to their current investment strategy.

Past experience has shown that often members move to conservative investment strategies as markets fall and fail to move back into growth strategies before the markets fully recover. Attempting to pick the "bottom of the market" is risky because a recovery can happen quickly and you may miss most of the benefits of the recovery in asset values.

For example, those members that switch to cash will realise losses (i.e. selling when the price is down) and unless the funds are moved back into the market at the right time, the same returns will not be enjoyed. Over time, the action of selling assets when values are low and buying back in when values are high could have a significant impact on a final superannuation balance.

Superannuation has significant benefits:

Superannuation has significant tax advantages – superannuation contributions and investment earnings are taxed at 15% rather than marginal tax rates and there is no tax on superannuation benefits for people over 60 years.

It can be difficult to put money back into the superannuation system – that is once superannuation is withdrawn eligibility limits (i.e. over 65 years of age and not working) or maximum contribution limits may be an obstacle to getting back into the superannuation system.

[3] Investment & Financial Services Association survey conducted by Newspoll19/10/2008

Even though many superannuation funds have experienced poor returns over the last 12 months, over the last 5 years superannuation funds have delivered strong results. Superannuation continues to be a worthwhile investment over the long-term.

Approaching retirement:

Members of superannuation funds that are approaching retirement may understandably be concerned about how recent returns will impact their retirement income and financial security.

It is important to remember that those Australians close to retirement or who have recently retired will generally have time to recover from the recent market losses. However, older self-funded retirees may have less time to fully recover from the recent losses.

There are some options for people in these stages;

- *Superannuation*: Most superannuation funds have put in place arrangements to help members better understand their options and maximise their benefits in retirement, for example, providing educational information, seminars and access to financial advisers.
- *Budgeting*: Budgeting is an important part of taking control of finances and managing retirement income. For some retirees, budgeting can be a useful tool to assist plan retirement and draw down on super.
- *Employment*: Delaying the transition to retirement may also be an option for some people. So long as the 'work test' is satisfied (i.e. 40 hours in a continuous 30 day period), people over 65 years of age can continue to contribute to their superannuation fund and continue to accumulate funds for retirement.
- *Age Pension*: For some people the age pension may be a way of supplementing retirement income. Eligibility for the age pension is dependent on a person's income, assets and age – currently 65 years for males and 63.5 years for females. In recent months, some retirees have applied to Centrelink for the first time to receive the age pension and others have applied to have the amount of their age pension increased.
- *Financial advice*: Professional financial advice from a licensed financial adviser can assist people put in place pre and post-retirement plans based on their financial circumstances, for example, identifying implications for drawing down on an income stream or topping up a superannuation fund.

Changing superannuation funds:

Since changes to the law in 2005, most individuals are able to switch their superannuation savings between funds and nominate which fund will receive their Superannuation Guarantee payments.

Members of superannuation funds should review the fees they are paying and whether the services provided are meeting their needs. Members considering changing funds should check with their existing fund to see if any exit fees apply and whether they'll lose any life or income protection insurance if they switch.

In periods of market downturns it is still worthwhile to consider maintaining the same investment strategy, even when moving to a different fund.

Consolidating lost and multiple superannuation accounts:

Finding lost super and consolidating it into one account can be a simple but effective step towards securing retirement income. There are a number of free websites dedicated to reuniting members with lost superannuation, including:

* **www.ato.gov.au/superseeker**
* **www.unclaimedsuper.com.au**

Any Australians concerned about the impact of the global financial crisis on their superannuation should contact their superannuation fund or seek professional advice from a licensed financial adviser, bank or accountant.

“Super is still super”… Frequently Asked Questions from the article

We understand that after reading the “Super is still super” article in the Autumn edition of ViewPoint and the “Superannuation in the context of the global financial crisis” critique prepared by the Superannuation Stakeholder Group, that you may have some questions in how this applies to ClearView Retirement Solutions and your investments with us.

1. What Investment Options are there within the ClearView Superannuation and Roll-overs Product?

As mentioned in the critique, most superannuation funds have a range of investment options within their fund. At ClearView, we have seven different investment options within our ClearView Superannuation and Roll-overs product, which you can invest your money into ranging from a Cash investment option to an Aggressive (high growth) investment option.

These investment options are created from ClearView’s Investment Philosophy of “multi sector, multi manager”, which is done to help reduce the risks of sharp fluctuations from one asset group or investment manager.
For more information in regards to the investment options available to you, and our investment approach, please review our Investment Options booklet in the ClearView Superannuation and Roll-overs and ClearView Pension Plan PDS or by clicking on 'Our Investment Managers'.

2. The article discussed a ‘balanced’ portfolio, what is a balanced portfolio?

In the article, the Superannuation Stakeholder Group discusses the fact that most Australians have their money invested in a “balanced portfolio”. A balanced portfolio is an investment portfolio aiming for capital growth, income, and stability by holding a diversified range of growth and non-growth assets. A balanced fund or portfolio typically includes shares, property, fixed interest and cash. It usually has a proportionate mix of growth and income (cash like) assets.

At ClearView, our balanced portfolio is known as the “Prudent” investment option. In comparison to the information provided by the Superannuation Shareholder Group, ClearView’s investment option had a portfolio split as follows:

Asset Class	ClearView’s Prudent Option	Stakeholder Group Average
Shares	48%	58%
Cash	11.1%	3%
Fixed Interest	36.8%	18%
Property	4.1%	10%
Alternative Assets	0%	11%

ClearView will continue to monitor all of its investment options, to help ensure we are achieving competitive results for our clients in the current market conditions.

For more information in regards to ClearView’s investment option asset classes please read “Your Investment Options” from page 14 in the Autumn Edition of ViewPoint.

3. Before I decide on an Investment Strategy, what should I consider?

Before you consider an investment strategy, it is important that you understand the risks that affect your investment.

Generally, all investing involves a degree of risk. Investing involves finding the right balance between potential risk and return. Before making an investment decision, it is important that you understand the following considerations: your investment goals, your investment timeframes, and your risk tolerance level.

However, one of the most important things to consider is discussing any investment decision or change in your personal circumstances or goals, with your financial adviser.

4. How can ClearView help me?

ClearView Retirement Solutions has been helping customers invest their money for over 20 years.

There is no cost or obligation to meet with a ClearView Financial Adviser. As our Advisers are salaried employees, you can be confident they are acting in your best interests, not their own.

Call 132 976 if you have any questions or would like to discuss meeting with a ClearView Financial Adviser. To arrange a review of your existing ClearView investments, make investment changes or enquire on your account, please call 132 977.

5. What does ClearView offer to me?

Clearview provides a number of services. These range from:

a) Seminars - ClearView is currently running a series of seminars for new and existing clients in regards to “Transition to Retirement” and “Strategies for retiring in uncertain times”, across locations in NSW, QLD, VIC, TAS and ACT.
b) “Retirement Outlook” program - is designed to provide assistance to those who are a few years away from retirement.
c) Calculators - ClearView also has an array of tools available that explain superannuation and retirement planning including:
    i) “Retirement planning – how to start planning”
    ii) Retirement Planning calculators

If you would like any more information in regards to these tools, or to speak to one of our Financial Advisers, please call ClearView on 132 977.