



HELP ME – HOW CAN I KEEP MY SAVINGS SAFE?

Overseas people have been rushing to the bank to take their money out before they collapse so should we be doing the same here in Australia? Adrian has a look to see how safe your finances are.

"In the unlikely event of ..."

We hear this phrase all the time when the air hostess goes through the plane safety procedures, but what about the "unlikely event" of your bank collapsing due to market "turbulence"?

The financial world has been turned upside down in recent months with lots of institutions around the globe experiencing severe financial pressure to remain afloat. Share prices have plummeted, houses have dropped in value and our super funds have felt the brunt as each day we hear of another story in the financial crisis.

But what about your money in the bank? Is it at risk? Should we go to our bank tomorrow, empty out the passbook account and stick our funds under the mattress?

My simple answer is that if your money is with one of the big banks then your money is pretty safe. Personally I feel very comfortable with my money being on deposit within a major Australian bank at the moment.

There are only 18 banks in the world that are AA rated by Standard and Poor and the good news is that four of them are here in Australia. The Australian banking system is sound, with the major banks exhibiting strong balance sheets unlike their foreign counterparts.

In simple terms, whilst our big banks are exposed to risk, they have enough of assets behind them to take some hits along the way.

These thoughts have been echoed recently by the Reserve Bank Governor Glenn Stevens as well as Prime Minister Rudd.

As we have seen overseas, there is a risk associated with having money on deposit with a bank. There are no guarantees with bank deposits. If an Australian bank collapsed tomorrow, bank account holders would be lumbered with all of the other unsecured creditors at the back of the queue and you might lose all of your money.

If you are worried about a bank collapsing then I recommend spreading your monies across a few bank accounts with different banks to spread your risk. It is simple to do & makes you sleep easier at night.

In some good news, the Federal Government has proposed new legislation which would give customers immediate access to their deposits up to \$20,000 in the case of bank collapse.

The Financial Claims Scheme is expected to cover over 80% of the number of savings/cheque accounts currently held.

If this legislation gets through the Senate (and we know how hard that can be), I recommend taking advantage of it and limit the risk of losing savings. Put \$20,000 in say 10 different banks and you are effectively covering \$200,000. Setting up an account in your spouse's name as well and you can effectively double this protection. If you have funds left over then put some in each of the kids' names too.

You have worked hard for your money ... you deserve to protect it.

GOLDEN RULES TO KEEP YOUR SAVINGS SAFE

- **Don't look for the big interest rate** – whilst higher interest rates are attractive, you must accept that it also co-incides with higher risk.
- **Stick with the “majors”** – CBA, Westpac, ANZ and NAB are considered the four biggest banks in Australia and hence the most secure in this current environment
- **Spread deposits across the banks** – although the risk is very low of an Australian bank collapse, it is prudent to spread your risk & not have all retirement savings in one account.
- **Have up to \$20k in each bank** – take advantage of the proposed Financial Claims Scheme limit if it comes into play.
- **Set up bank accounts in different family members names** – the Financial Claims Scheme proposes to protect up to \$20,000 *per person* which means a family of five could have cover for as much as \$100,000 in a bank if the legislation is enacted
- **Keep deposits separate from mortgages** - if a bank collapses then they invariably net off any deposits that you have with any loans so it is a good idea to have your savings with a different bank.
- **If you are a risk taker then don't be in cash** – Investment markets move in cycles and rise and fall. If you are comfortable with a bit of risk don't have your money

in cash or you could potentially miss out on any positive 'bounce' gained in a strong market recovery.

- **Check your pension entitlement** – if you are retired and your investments have fallen in value then you should with Centrelink that you are receiving your full pension entitlement