Benefits of a SUPER long engagement

Superannuation is a long-term financial relationship. It begins with our first job, grows during our working life and hopefully supports us through our old age.

Throughout your super journey you will experience the ups and downs of bull and bear markets so it's important to keep your eye on the long term.

The earlier you get to know your super and nurture it with additional contributions along the way, the more secure your later years will be.

Like all relationships, the more effort you put into understanding what makes super tick, the more you will get out of it.

Your employer is required to make Superannuation Guarantee (SG) contributions into your account of at least 9.5 per cent of your before-tax income. If you are self-employed you are responsible for making your own voluntary contributions, but these are tax-deductible .

SMSF or Industry/Retail Super?

While the use of Self Managed Super Funds have grown rapidly over the past 10 years, there are still more than 26 million industry or retail super accounts in Australia (more than one for every person!). In fact, 39% of the population have more than one superannuation account.

There can be various reasons for this, including employer rules, not wanting the responsibility of an SMSF, disinterest due to small balances, or simply not understanding your options.

Often, the reason is due to a disengagement from an individual's superannuation because they cannot access it for a long time. However, it pays to get on top of this early – the earlier you understand your super and how it can work for you, the more likely you are to have a greater nest-egg when the time comes to access it.

Your financial adviser can help you decide which mode of superannuation is right for you.

Check your account

To get on top of your super, the first step is to check how much money you have in super and whether you have accounts you've forgotten about.

You can search for lost super and consolidate all your money into one fund if you have multiple accounts by registering with the ATO's online services.[i] Having a single fund will avoid paying multiple sets of fees and insurance premiums.

If you don't nominate a super fund or investment option in your super fund, your SG money is invested in the 'Balanced' or default option nominated by your employer.

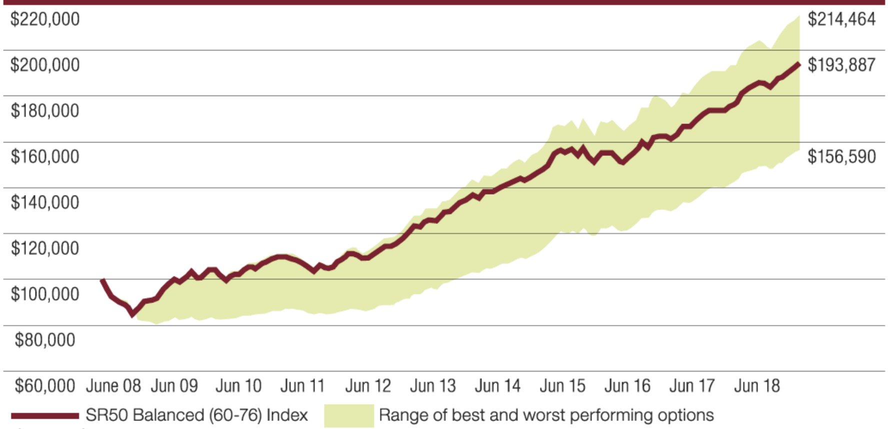
Balanced options typically have between 40-90 per cent of their money invested in growth assets such as shares, with the remainder in bonds and cash.

Given the divergence in definitions of what constitutes a "Balanced" option, it pays to understand how your super fund really invests your money and whether that mix of growth and defensive asset is really right for your risk profile. Obviously, this is where a qualified financial adviser can help.

Over the past 10 years, $100,000 invested in the median balanced option would have nearly doubled to $193,887, but there was a wide range of performance (see the graph on the following page). The best performing balanced option returned $214,464 over the same period while the worst returned $156,590.[ii]

(Again, it is important to understand that the return on a "Balanced" account

A decade of super returns



Source: Super Ratings

will be impacted by how your super provider categorises a Balanced fund).

State your preferences

Default options are designed for the average member, but you are not necessarily average. Younger people can generally afford to take a little more risk than people who are close to retirement because they have time to recover from market downturns. So think about your tolerance for risk, taking into account your age, and see what investment options your super fund offers.

As you grow in confidence and have more money to invest you may want the control and flexibility that come with running your own self-managed super fund.

Also check whether you have insurance in your super. A recent report by the Australian Securities and Investments Commission (ASIC) found that almost one quarter of fund members don't know they have insurance cover, potentially missing out on payouts they are entitled to.[iii]
Insurances may include Total and Permanent Disability (TPD) and Income Protection which you can access if you are unable to work due to illness or injury, and Death cover which goes to your beneficiaries if you die.

Building your nest egg

Once you understand how super works you can take your relationship to the next level by adding more of your own money. Small amounts added now can make a big difference when you retire. You can build your super in several ways:

Pre-tax contributions of up to $25,000 a year (including SG amounts), either from a salary sacrifice arrangement with your employer or as a personal tax deductible contribution. This is likely to be of benefit if your marginal tax rate is higher than the super tax rate of 15 per cent.

After-tax contributions from your take home pay. If you are a low-income earner the government may match 50c in every dollar you add to super up to a maximum of $500 a year.

If you are 65 and considering downsizing your home, you may be able to contribute up to $300,000 of the proceeds into your super.

You could also share the love by adding to your partner's super. This is a good way to reduce the long-term financial impact of one partner taking time out of the workforce to care for children. You can split up to 85 per cent of your pre-tax contributions with your partner. Or you can make an after-tax contribution and, if your partner earns less than $40,000, you may be eligible for a tax offset on the first $3,000 you put in their super.

Before you make additional contributions, adjust your insurance, or alter your investment strategy, it's important to assess your overall financial situation, objectives and needs. Better still, make an appointment to discuss how you can build a positive long-term relationship with your super.

i https ://www.ato.gov.au/ individuals/super/keeping- track-of-your-super/#Checkyoursuper
ii https://www.superratings. eom.au/2018/09/20/ dont-panic-what-superannuation-is-teaching-the post-gfc-world/
iii https ://download.asic.gov.au/ media/4861682/ rep591-published-7-september-2018.pdf

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