Info Sheet

Some Super Basics

Do you know how your superannuation is invested and its latest performance? Paying attention to your super today can make a big difference in the future.

There is no doubt that young people are disengaged when it comes to their super. For many, super doesn't feel like their money because they are unable to access it now. For others, it goes into the "I'll think about it closer to retirement" category. But these attitudes may be preventing you from making super work powerfully for you. The earlier you review your super fund and underlying investment options, the better your retirement savings will be over the long term.

The basics of super

Super is a savings structure for your retirement. The money consists of contributions made into your nominated super fund by your employer and hopefully, additional contributions made by you. If you are an employee, your employer is currently required by law to pay 9.5% of your salary into super. This is called the Superannuation Guarantee. By the end of your working life, this pool of retirement savings will form a significant portion of your overall assets.

Super is the most tax effective savings structure that you can utilise. For every dollar of income earned personally, tax is paid at your marginal tax rate. However, inside super the maximum tax rate applied is 15% on most contributions. For a person earning $80,000 a year, with a tax rate of 34.5% (inc. Medicare), pre-tax contributions to super represent a tax saving of 19.5%.

Making super work for you

Let's look at John's super by way of example. He is age 30 (dob 26/03/1986), earning $80,000pa (before tax), is seeking to retire at age 67 and has $50,000 in his super account.

John is currently paying a 'medium level' of fees and invested in a default 'Balanced' option. His employer is contributing 9.5% of his salary into his nominated super fund.

How could John expect his super to grow over his working life?

Using the ASIC MoneySmart Super calculator, the results are as follows:

Age	Super Balance
30	$50,000
40	$128,279
50	$223,525
60	$321,356
67	$391,413

But if John sought financial advice regarding his personal situation and adjusted his super strategy accordingly the outcome could be very different. For example:

What if, John invested in a 'High Growth' investment option increasing his exposure to growth assets while forgoing $100 per month of salary and contributing the extra to his superannuation fund. At age 67, the estimated balance is **$507,377**.

This superannuation strategy has increased John's projected retirement balance by more than 30%.

You can use the Super calculator available on ASIC's Money Smart website to project your future super balance at retirement.

As you can see from the previous example, your future super balance is primarily a function of the following factors:

1. Time to retirement.
2. Contributions you and your employer make.
3. Investment performance.

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So how do I understand my current super statement?

Your current super fund will provide you an annual statement that contains all relevant information regarding your super fund.

Once you have made sure your personal details e.g. address & contact number are correct, the following steps are designed to help you review your existing super strategy:

Step 1 - Check the number of super funds you have.

If you have worked with multiple employers and have not previously nominated a super fund for your employer contributions to be paid into, chances are you may have multiple funds and you are paying unnecessary administration fees. If you have more than one fund, it is a good time to consider super consolidation. Be careful that you understand what benefits may be lost if you proceed to consolidate superfunds e.g. existing personal insurances may be cancelled.

Step 2 – Make sure your employer is paying 9.5% of your salary into super.

If you are earning a gross salary of $80,000 per annum, your employer should be contributing 9.5% or $7,600 into your super fund. If you are an employee, you are legally entitled to be receiving this Superannuation Guarantee amount. If it has not been paid you should speak with your employer.

As super is a long term investment, young people should have substantial exposure to asset classes that have the capacity to grow and produce income at a rate greater than inflation, such as shares and property. Again, if you need help in selecting the right investment option for you, your trusted adviser can assist.

Step 3 – Review your current investment option.

If you have not selected an investment option as to how your money is to be invested. Then you will be automatically invested in a simple, diversified mix of investments that is deemed suitable.

This default investment option does not take into account your personal investment objectives, ideal asset mix or preferences e.g. ethical investments.

Reviewing your investment options past performance against a target benchmark is a good place to start. However, it should be remembered that moderate to high exposure to growth assets e.g. shares and property is the 'engine room' for generating long term capital growth.

Step 4 – Review any personal insurances attached to your super.

Often basic levels of Life insurance and Total & Permanent Disablement insurance are provided by your super fund. Insurance through super can be a cost effective way to financially provide for your family in the event of death or permanent disability. The insurance provided will usually have premiums payable from your super balance. You should be familiar with the types of insurance cover you hold.

Step 5 – Check the fees payable and whether they appear reasonable.

Super funds charge fees in a number of ways. For example, member fees that cover general administration, investment fees, that vary with the investment options selected and ongoing adviser service fees, if your account is managed by an adviser. If you want to review the fees you're paying, refer to your super fund's website and Product Disclosure Statement.

If managing your super sounds too complex or you would like comprehensive advice, employing the services of a trusted financial planner is a good place to start. It is important that you make your super savings work hard for you, in order that you may reap the benefits in your retirement.