

SUPER – THE END RESULT?

Based on discussions with clients, a significant number don't yet know the asset class their super is invested in or indeed the Fund Managers or even the balance! In this issue, we demonstrate the need for clients to actively manage their Super.

RISK V RETURN:

Risk and Return Trade Off						ig i-group Financial Planning
Lump Sum Investment Split						
		← Defensive Assets →		← Growth, Market Linked Assets →		
Client Risk Profile	Cash	Fixed Interest	Property	Australian Shares	International Shares	Long Term Expected Rate of Return
High	10%		90%			CPI + 5%
Medium / High	35%		65%			CPI + 4%
Medium	50%		50%			CPI + 3%
Low / Medium	65%		35%			CPI + 2%
Low	80%		20%			CPI + 1%

Investment Return or Rate of Return: *The rate of return that a lump sum will earn each year (net of investment fees and charges, but before tax).*

When estimating your investment return in Super or Managed Funds, you may want to use the table above as a guide. For example, if around 65% of the investment is invested in shares and property, you could consider assuming a return of CPI +4%. If CPI is at 3.5%, then expected returns will be 7.5% pa over a time frame of 7 to 10 years i.e. a long term investment.

These returns are estimates and are not guaranteed.

However, in relation to Super, if a client makes no choice, their fund will be invested in a DEFAULT FUND – generally a BALANCE FUND. In the above table, this would equate to, for example, CPI +3%.

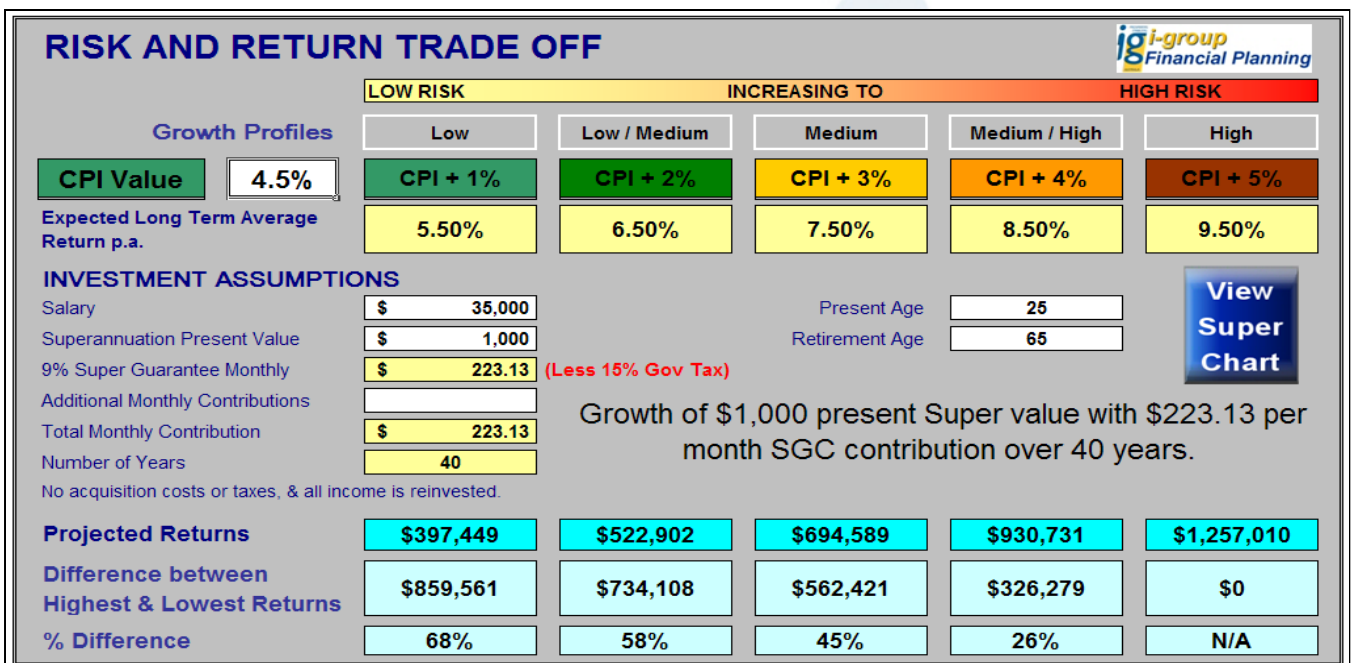
For a young employee (say age 25) just starting in the work force who has no interest in managing his / her fund, and leaves it in a balanced fund to age 60 or 65,

this could deprive him /her of a significant amount of dollars at retirement. To make things even worse, most young employees who may have worked casually from age 18, have more than two super funds and are not aware of the fact that fees and insurance premiums continue to erode the value of their super.

During our one-on-one sessions with clients, we explain Risk V Return and we undertake a risk analysis to determine their risk profile prior to recommending an asset class. If the client comes out as a “Low Risk Exposure” type of client, we explain the implications and why that could disadvantage a young person of age 25 and the impact of that choice over the life of an investment.

And how can we demonstrate this disadvantage or potential loss?

EXAMPLE SUPER: CASE STUDY 1



Assumptions

CPI Value	4.5%	Super PV	\$1,000
Present Age	25	Super Guarantee	9%
Retirement Age	65	Additional Super Contributions	Zero
Salary	\$35,000		

(For the purpose of the above exercise, fees & salary increases have not been considered.)

The above results demonstrate that there is a significant difference in the long term projected returns when comparing the different investment options.

Fund Type	Balanced Fund	High Growth Fund
Expected ROR	CPI + 3%	CPI + 5%
Projected Returns	\$694,589	\$1,257,010

That's a projected difference of just over half a million dollars on the returns between a high growth fund and a balanced fund over a 40 year time frame. That too without taking into consideration any increase in salary or additional contributions!

With the recent volatility in the markets, High Growth Funds have taken a battering. As a result, we have come across those who have switched from a High Growth Fund to a lower risk fund. If you are one of those, far from preserving your capital, you have probably committed that most expensive investing mistake of all: selling at the bottom and buying back at the top.

Despite all that has been written on this subject, it is human nature to sell when prices are falling and buy when prices are rising – probably crystallising losses then missing out on potential gains.

All that aside, what if we consider someone in their early fifties? What potential difference will the choice of funds (high risk or low risk) make to the end result? Or is it really too late to worry about?

EXAMPLE SUPER: CASE STUDY 2

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RISK AND RETURN TRADE OFF

	INCREASING TO				
	LOW RISK	Low / Medium	Medium	Medium / High	HIGH RISK
Growth Profiles	Low	Low / Medium	Medium	Medium / High	High
CPI Value <input type="text" value="4.5%"/>	CPI + 1%	CPI + 2%	CPI + 3%	CPI + 4%	CPI + 5%
Expected Long Term Average Return p.a.	5.50%	6.50%	7.50%	8.50%	9.50%
INVESTMENT ASSUMPTIONS					
Salary	<input type="text" value="\$ 52,000"/>		Present Age	<input type="text" value="52"/>	
Superannuation Present Value	<input type="text" value="\$ 140,000"/>		Retirement Age	<input type="text" value="65"/>	
9% Super Guarantee Monthly	<input type="text" value="\$ 331.50 (Less 15% Gov Tax)"/>		Growth of \$140,000 present Super value with \$331.50 per month contribution over 13 years.		
Additional Monthly Contributions	<input type="text"/>				
Total Monthly Contribution	<input type="text" value="\$ 331.50"/>				
Number of Years	<input type="text" value="13"/>				
<small>No acquisition costs or taxes, & all income is reinvested.</small>					
Projected Returns	<input type="text" value="\$361,001"/>	<input type="text" value="\$406,122"/>	<input type="text" value="\$457,191"/>	<input type="text" value="\$514,999"/>	<input type="text" value="\$580,443"/>
Difference between Highest & Lowest Returns	<input type="text" value="\$219,442"/>	<input type="text" value="\$174,321"/>	<input type="text" value="\$123,252"/>	<input type="text" value="\$65,445"/>	<input type="text" value="\$0"/>
% Difference	<input type="text" value="38%"/>	<input type="text" value="30%"/>	<input type="text" value="21%"/>	<input type="text" value="11%"/>	<input type="text" value="N/A"/>

Assumptions

CPI Value	4.5%	Super PV	\$140,000
Present Age	52	Super Guarantee	9%
Retirement Age	65	Additional Super Contributions	Zero
Salary	\$52,000		

(For the purpose of the above exercise, no increase in salary has been considered.)

Once again, and despite a relatively shorter time frame of 13 years, the results still demonstrate a sizable difference in the long term projected returns when comparing the different investment options.

Fund Type	Balanced Fund	High Growth Fund
Expected ROR	CPI + 3%	CPI + 5%
Projected Returns	\$457,191	\$580,443

In this instance the projected difference is just over \$120,000 on the returns between a high growth fund and a balanced fund over a 13 year period.

The above two case studies are relatively simple exercises that have not taken into consideration options such as additional contributions – pre tax salary sacrifice or post tax contributions and what difference an additional amount of just \$100 per month could make to the **end result**.

In summary, the money in **your** super account is **your** money. It is up to you to ensure that you maximize the potential returns by selecting the right level of risk and projected returns that will give you the best possible long term returns.

That brings us to the all important question: What will it be worth? What END RESULT are you expecting? Will your super fulfil your retirement needs?

If you are amongst those that cannot answer the above question or you continue to have multiple super funds and would like more information on consolidating those funds or even if you would like to have a professional review on the choice and performance of your super fund and other investment strategies, please do not hesitate to contact one of our advisers.

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