

Choosing the right super fund

20 March 2015

It's essential that you take an interest in how your superannuation savings are invested as it is likely to be one of the biggest assets you will own. The decisions you make now about your super fund will affect the amount you have in retirement – in other words, your retirement lifestyle depends on it!

Super is one of the most tax-effective ways to save for your retirement. However, there are many different options of super funds available in today's increasingly complex market and not all super funds are the same.

Generally, Australians can choose where their current employer directs their 9.5 percent compulsory superannuation guarantee (SG) contributions. Some super funds make it easier to take advantage of tax-effective strategies to add to your retirement savings and some super funds provide insurance cover while others offer greater investment choices.

An important first step is to decide what benefits and features are important to you in a super fund. You can then better match your personal needs to the super funds available, helping you to meet your retirement goals.

Strengthening your super fund through consolidation

Many Australians have more than one super fund as a result of changing jobs. This is why one of the first strategies your financial adviser may undertake is to help you consolidate your super funds. Consolidating super funds can help you save money by reducing the costs of fees and charges associated with operating multiple super funds. It can also make administration, asset allocation and investment management easier for you.

Types of super funds

Although most people have an accumulation fund, there are many different types of super funds.

Accumulation funds

The amount of your superannuation balance at retirement depends on two main factors:

- the amount of money that has been paid into the fund
- the fund's return on investment, after all costs and taxes are deducted.

Accumulation funds allow you to take the risks and reap the rewards from your fund's investment performance.

Self-managed super funds (SMSFs)

Another option is to set up your own super fund and manage it yourself. Keep in mind, if you choose this option your fund must abide by all rules set by the superannuation laws and the Australian Taxation Office.

In short, the requirements include:

- becoming a trustee of the fund – a role requiring you to perform important legal duties
- the fact that the money can be used only to offer retirement benefits
- solid administration – making sure detailed records are kept so your fund can be regularly audited.

You will need:

- to make it worthwhile, so a minimum base super balance of approximately \$250,000 is generally recommended
- to ensure that the account is well administered and managed by employing the services of professional accounting, tax, audit and legal advisers,
- the ability, time and interest to run the super fund and to arrange suitable insurances.

For more information about SMSFs, please refer to our 'Self-managed superannuation funds' factsheet.

Defined benefit funds

With a defined benefit fund, your superannuation benefit at retirement is defined by the fund's regulations and generally depends on:

- the amount of money that has been paid into the fund
- your level of earnings at the time of your retirement
- your length of service with your employer.

For example, your retirement balance could be worth four times your final salary after 20 years membership.

It is important to note a defined benefit account cannot be reinstated once it has been closed, so it is in your best interest to seek advice from a financial adviser before making a decision.

Key features and benefits of super funds

When deciding on which super fund is suitable for you, the different features of a super fund are important considerations.

Insurance

Opting to implement insurance within your super fund can be beneficial. Larger super funds have the ability to offer lower premiums as they are covering a large number of members on a group basis. Another benefit is to your hip-pocket – by paying insurance through your super fund instead of your post-tax income, all your premiums are generally tax-deductible to the fund, whereas the only insurance that is usually tax deductible outside of super is income protection insurance. The different types of cover generally available are income protection, total and permanent disablement and life insurance.

Considerations when taking out insurance within your super fund include:

- **Characteristics:** the features of your super fund can vary greatly between different providers. These features include the level of cover available, automatic acceptance levels, different underwriting terms, and claimable conditions.
- **Limits:** consideration should also be given to the restrictions that may be built into the cover offered. For example, you might be unable to keep the insurance cover if you change jobs.

- **Restrictions:** can also refer to part-time or casual work, dangerous jobs, maternity leave and your age.
- **Charges:** super funds will generally charge an insurance premium to your account for the insurance, unless your employer pays for it. Costs do vary greatly between providers, but your financial adviser will have this information readily available for comparison.

Investment choice

Investment choice is essential as it will allow you the flexibility to modify your super investments to meet your personal preferences and needs, which may alter over time.

The decisions you make now can have a large impact on the funds you have accessible for your retirement.

At the very least, a super fund should offer a minimum of five options to match your risk profile and asset allocation needs. The level of choice required will be based on the level of control you want over the investments within your portfolio and the investment strategy you have in place.

Some super funds have default portfolios (known as model portfolios, multimix or managed accounts), some offer a choice of over 200 managed funds and access to the top 300 ASX listed shares. Your goal when evaluating a super fund's investment choices is to have the freedom to construct a portfolio to best meet your needs.

Investment performance

Although performance of the investment is important, historical performance is not the best indicator of future performance, especially if you're looking at short-term investment periods of one to three years. It should be noted that some investments within super funds can be high risk and provide high returns in the short term but that isn't always applicable over the long term.

As a guide, you should consider at least five years of performance figures as a basis to compare funds. Compare products only where they have consistent objectives, asset allocations and are calculated over the same time period.

The performance figures should also be calculated consistently (for example, is the figure before or after tax and fees).

Your financial adviser can help you compare the performance of various super funds.

Fees and charges

Another important consideration when selecting your super fund is to compare the costs, as the fees you pay will have an impact on the sum of money you have for your retirement. It is in your best interest to consult your financial adviser as some fees may be hidden or difficult to calculate, and they will be able to provide a clear comparison between them.

The following are some examples of fee types applicable to super funds:

- Administration fees are charged for the administration of your super fund. These fees are generally charged as either a flat dollar amount or a percentage of your account balance. The administration fee can include a number of different fees such as the actual administration fee, trustee fee, responsible entity fee and expense recovery fee.
- Management fees are charged by fund managers for managing the underlying investment in which you have invested. The management fee can be included within administration fees or they may be taken into account in the value of the underlying investments.
- Contribution/entry fees are charged on the initial and sometimes subsequent investments you make into the fund or those made on your behalf. Many super funds charge and keep these fees but others let you negotiate them with your financial adviser and do not keep any fees.
- Exit fees/penalties are fees charged when you either exit your fund or where you exit the fund within a minimum prescribed period of time.
- Performance fees are charged by the underlying fund managers where they create performance greater than arranged standards. Performance fees are in addition to the standard management fees.
- Adviser service fee is charged where you consult your financial adviser on a regular basis. Your financial adviser will disclose any remuneration that may be charged to or received from your super fund. It is in your best interest to seek financial advice as it is an important element in making the right financial decisions and in the long run, will be beneficial to your super balance.
- Other fees include investment switching fees which can apply when you modify the investment choice in your super fund; and buy/sell costs where the price you pay to enter an investment option is larger than the price you receive when you sell the investment.

Super service

The services a super fund can offer generally include a member website and client service centre, employee online reporting, education services and member newsletters. Online reporting can allow you to view your account details 24 hours a day, 7 days a week. Super fund websites could provide you with information like:

- your current balance
- up-to-date performance data for all your investment choices
- insurance cover information
- consolidated asset allocation of all investments
- information regarding basic investments and their values
- details of all transactions and charges to your account.

Other key strategy features

Other strategies within super you could consider include:

- binding and non-binding death benefit nominations
- transparency of underlying fund managers
- auto-rebalancing
- nomination of specific funds for regular savings or withdrawals
- anti-detriment payments.

Your financial adviser will be able to provide you with more information about any of these strategies and many more.

Life stages

An ideal super fund will have the flexibility to change with you as you transition from your working life into retirement. Your chosen super fund should allow you to move effortlessly from the accumulation phase into the pension phase. Your super fund should also be able to provide a variety of income streams, including pre-retirement pensions and account-based pensions, without any extra costs necessarily being incurred.

Facilitating financial advice

Financial advice is important in helping you make the right decisions in a complex superannuation environment. Some funds make it easy for you to pay for this advice as they allow you to pay through the super fund on flexible terms. For example, initial advice on your fund selection may be paid as a one-off fee from your super roll-over.

For ongoing advice, the fund should provide a feature to allow the fee to be deducted monthly from your account. This means you can use your super fund to pay for the advice related to super rather than having to incur an out-of-pocket expense.

To find out how TGFS Financial Planning can assist you, please contact 1300 755 521 or email info@tgfsfinancialplanning.com.au to arrange an appointment today.



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