

CHOOSING INVESTMENTS IN SUPER

When saving for your retirement future through super, it's important that you understand where your super is invested.

Every member is different and so too is every person's personal financial situation. So, to cater for the varying needs of members, super funds will offer a range of investment options for members to choose from.

Initially when a person first joins a super fund, the Trustee of the fund will invest the member's money in a default investment option. This option is usually called a **MySuper** investment. A MySuper investment may be a diversified, BALANCED fund that is designed to suit most members within the fund; however it may not be suited to an individual's personal preference or choice. An explanation of a BALANCED option is explained further down below.

The MySuper balanced fund may carry a Lifecycle investment approach. The Lifecycle approach will typically move money from growth investments when the member is young, to more conservative investments as the member approaches the age of 60 and beyond.

Choosing your own Investments

You can choose to leave it up to the super fund to do the heavy lifting and to invest their super contributions in the MySuper investment. If you choose to opt out of the MySuper investment and make an investment selection of your own. It is important that you consider the alternative investment options available to you carefully and seek appropriate financial advice.

Choosing investments to help you reach your goal faster can be a challenge and the choices you make will have an impact on your account balance as your super grows over time.

Understanding some of the investment terms used

Superannuation funds are meant to provide retirement benefits to members and therefore a fund's trustee must undertake a careful balancing act between the advantages of achieving strong investment **Returns** versus the **Risk** of a potential downturn in investment markets.

A super fund's underlying investment structure contains assets such as Australian Shares, International Shares, Property, Bonds and Cash. These are the most common building blocks that make up an investment option, but they are not the only type of assets that the fund will invest in from time to time.

Fixed interest investments like Bonds and Cash are usually termed as **DEFENSIVE** investments because they generally carry lower risk whereas Shares & Property are termed as **GROWTH** investments because they offer potentially higher returns, however they carry a higher level of risk & volatility.

DEFENSIVE investments:

- are typically used to lower the risk of negative investment returns over a short period, e.g., up to 2–3 years; and
- can diversify and spread the level of risk to reduce the likelihood of a negative return.

GROWTH investments:

- are typically used to achieve a potentially higher rate of return over a longer period e.g., 5–9 plus years or more; and
- come with a higher risk of negative returns over a shorter period.

It's worth taking time to review the investment options available to you through your super and this includes the fund's MySuper option. The current investment performance of the super fund is important to consider, however past investment performance is not an indicator for future performance.

Understand that differing investments have various levels of **RISK and that in** general, the higher the potential investment return, the higher the risk and vice versa.

Most super funds will allow you to choose from a range of investment options, from Conservative options through to Stable, Balanced, Growth and High Growth investment options. Let's have a look at some of these now.

Choosing investments across a Pre-Mixed selection

Super funds allow you to change your investment selection as required. Here are some of the pre-mixed options that are available from most super funds. Pre-mix options will vary by their name against the asset classes that underpin each option.

❖ Growth

The risk profile of these options is designed for investors with a minimum nine-year period or those who are willing to accept high levels of volatility as a trade-off for higher investment returns. Traditionally growth options will invest around 85% in shares, property and infrastructure securities. **Some may even go as high as 95% to 100% in growth assets and be defined as [High Growth](#)**. These options have the potential for strong investment returns over the long term, but they are more likely to experience volatility and negative returns over shorter time period.

❖ Balanced

The risk profile of these options is designed for investors with a minimum seven-year time period. These options traditionally invest around 60% to 75% in shares, property and infrastructure securities and around 40% to 25% in fixed interest and cash. Stable long-term performance is the core objective of a Balanced fund. It aims to produce stable investment returns over the longer term hence most super funds will offer a Balanced investment as a default strategy when the member does not make an active choice.

❖ Moderate

The risk profile of these options is designed for investors with a minimum five-year time period. Traditionally they invest around 30% to 50% in shares and property and around 70% to 50% in fixed interest and cash. The aim is to decrease volatility and risk and hence this option will provide lower returns in the longer term.

❖ Conservative

The risk profile of these options is designed for investors with a minimum two-year time period.

These options traditionally have an investment mix of around 30% in shares and property and 70% in fixed interest and cash. The aim is to reduce the risk of loss and therefore accepts a lower return over the long term. There is less chance of having a bad year than in the balanced or growth options.

❖ Ethical

This option has seen a steady increase over the last 10 years by members who have a genuine concern about investing their super within a set of environmental and social governance standards. The asset allocation across growth and defensive assets will vary between super funds, hence the objective and performance of these options are principal factors to consider when investing and saving for a member's retirement future.

Key points to consider when making an investment choice

When making an investment selection in super, you should consider the following:

1. What is your current age and how long do you intend to save and invest? For example, when do you intend to retire? At age 60, 65 or 67?
2. When do you anticipate accessing your super savings? This is usually when you intend stopping work.
3. Do you intend on continuing to work beyond your 65th birthday and thus contribute more into building up your super nest egg?
4. Most of us are now living longer. It raises the question, should you continue to keep your super invested for a longer period to maximise and to continue to grow your super balance?
5. Do you expect to start drawing down an income (pension) from your super when you retire?
6. Considering that Growth investments have the potential for higher returns over the long term and despite returns being volatile and unstable over the short term, how comfortable would you be if you experience negative returns over say a 5-to-10-year period?

7. Your investment period may be short, so taking on additional RISK by investing in growth assets may be too high a risk and hence minimising the volatility of your super may be your greatest concern.

The importance of seeking advice

There are many on-line superannuation calculators that can help you determine the future value of your super by helping you to input differing factors, such as the fund's investment performance, administration fees, investment fees and anticipated investment returns over time. The web link below gives you access to the ASIC MoneySmart superannuation calculator. This on-line calculator may assist you to determine how much your super might grow to.

<https://moneysmart.gov.au/how-super-works/superannuation-calculator>

This fact sheet provides an overview of some of the differing investment options that are available to you through a super fund. Please make sure you seek financial advice and check out the finer details before switching your investments.

If you would like a PictureWealth adviser to assist you in any way, do not hesitate to contact us on 1800WELFIE (1800 935 343) or by email at Financialwellness@picturewealth.com

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