

# GET THE LOW DOWN ON SUPERANNUATION!

The world financial crisis has certainly been a hugely publicised issue across the globe, with many fearing for the financial safety. One of the major discussions in Australia has been centred on some poor superannuation returns in the last financial year, and the prognosis for the months ahead. Below is a Superannuation fact sheet – compiled by Industry Funds Services – that goes a long way to answering all of your concerns.

## Nowhere to hide!

### *What do you do when your super results are not that super?*

#### Is the Sky Falling in?

Yes and no. There is no doubt that this is the most serious financial crisis to engulf world markets in many years, prompting unprecedented corporate turmoil and interventions by governments. This volatility has already impacted super returns and other direct investments. But - despite the dramatic and sometimes frightening media headlines economic fundamentals remain. After a shake out, consolidation and a possible period of reduced economic activity, markets will eventually recover lost ground. How long this will take is a question no-one can answer yet....It could be several years.

#### What should you do?

Don't panic! It's easy to be dismayed at the fall in your account balance from last year to this. Keep in mind super is a long term investment. Over the last five years most industry super fund accounts have been growing at a super charged rate. Even after this year's negative results most of us are still well ahead. However, many commentators agree that the strong double digit returns of the previous years are very unlikely to reappear in the short to medium term. So, your balance may grow more slowly than in the past.

#### How did this happen?

Put simply, irresponsible lending, poor risk management, over reliance on debt to fuel profit growth and good old corporate greed. The major US investment banks built a giant 'house of cards' on a foundation of questionable business practices. This house of cards has now collapsed! And, the effects are now washing back and forth across global investment and credit markets with negative impacts on both Australian and international share values.

#### Why does my super fund keep investing in share markets?

Historically, shares are usually one of the best performing asset classes. This has been the case for many decades. But, the potential for higher returns comes with some risk. If you are one of the majority of fund members who have their super in the 'default option' then you automatically have some exposure to domestic and international shares. When markets are strong this helps lift your returns each year. When they aren't....

#### Are all my eggs in the wrong basket?

Not if you remember that super is a long term investment.

To reduce investment risk and direct market exposure, industry funds invest in a broad range of asset classes, not just shares. Investments in infrastructure, private equity, domestic and international property, cash and fixed interest are all part of a fund's overall portfolio. Diversity can help cushion the worst effects of market volatility, but it is almost impossible to avoid some flow on effects.

### Don't get mad, get educated!

Like many Australians, you may be worried about your super, bamboozled by the technical explanations, or simply tired of being frightened by sensational headlines. Now is the time to find out more about your super and finances. Ask questions – talk to your fund or your planner. Check out if your industry super fund runs free member education seminars. Keep visiting [iffp.com.au](http://iffp.com.au) for our plain English articles about key financial topics or sign up to our regular newsletter.

## Top tips for surviving uncertain times...

### DOs

1. Continue salary sacrificing into super and/or making additional contributions. Super is still one of the most tax-effective investments. Focus on the benefits and strong historical performance rather than short term setbacks.
2. Be wary of people or products promising unrealistic investment returns. During periods of market uncertainty, some people will be keen to help you swap investment/super accounts, promising bigger and better results. This is often referred to as 'churning' and is very profitable for them - they often earn commissions on new accounts.
3. Make sure you get what you really need from your super. Some products justify high fees and charges because of their many 'bells and whistles' features that the average investor doesn't understand and will never use. Most of us are usually fairly happy with a fund offering good returns over the long term, low fees, well priced insurance options and online access.
4. Take the opportunity to consolidate your super accounts into one account. You will reduce your fees and make your super easier to monitor. For most of us, any more than one super account is one too many. Contact your Industry Super Fund if you need help.
5. Think carefully before making any sudden investment decisions or changes. During periods of market uncertainty, the best option for most people is to 'hold their nerve'.
6. Prepare yourself for more volatility in the market. It is likely that there will be more up's and down's before markets stabilise.

### DONTs

1. Forget that super is a long term investment. Ignore the 3, 6 or 12 months returns. Focus on the 3, 5, 7 & 10 year returns – these give you a much more accurate indication on the true performance of your fund.
2. Be pressured into making any major investment decisions. Don't be afraid to ask questions and to say NO. It is your money, your future, so you don't need to do anything that you are not comfortable with. The old adage usually remains true - if it sounds too good to be true, than it probably is!
3. Dash for Cash. Seek professional advice before making any sudden investment moves. If you are very worried about market volatility at the moment you should talk to your planner or your fund. One option may be to direct future contributions into a cash portfolio until the market recovers.

4. Ignore the fees you are being charged. If you are paying high management fees and trailing commissions to an adviser you haven't seen or heard from for years, now may be a good time to ask... what exactly am I paying for? Remember - performance is not guaranteed... fees are!

5. Think DIY Super is easy! Self managed funds (SMSF's) are fine for some, but unless you have at least \$300,000 in super and the time, knowledge and interest to actively monitor your own investments you may find yourself paying significantly more in fees for much lower returns.

6. Put off retirement without seeking professional advice. Remember, if you transfer your money from your super into the same asset classes in your pension account, you won't have crystallised your losses and will still be in the position to benefit from recovery in the market.

***-Courtesy of Industry Fund Services***