# A guide to choosing your super fund

After your home, your super is probably the next biggest asset you will own. The choices you make now about your super fund can have a significant impact on the final amount you'll have when you retire. For this reason, it's vital that you take an active role in how your super is invested.

Super is a great way to save for your retirement. Many Australians can choose where their employer directs super guarantee contributions (SGC).

Not all super funds are the same. There are many different funds available in today's increasingly complex market. Some funds make it easier, for example, to take advantage of tax effective strategies to increase retirement savings. Others provide greater investment choice, while other funds offer insurance cover, such as life insurance, at competitive rates.

Thinking about what benefits and features are important to you in a super fund is a very important first step but it's probably not something you can do on your own. We strongly suggest you seek advice from a financial adviser.

Your adviser will be able to help you clarify those benefits and features of super funds that are important to you in reaching your retirement goals.

Once the adviser has gathered enough information from you to understand your needs and objectives, they can identify the options available to you and recommend an appropriate super fund.

## Consolidating super funds

Many Australians have more than one fund as a result of changing jobs. You should talk to your financial adviser about consolidating super funds if this sounds like you. Consolidating super into one fund can make administration, asset allocation and investment management easier. It may also be beneficial in reducing the total administration fees you pay.

### Types of super funds

There are three main types of super funds. Most people have an accumulation fund.

#### Accumulation funds

The value of your retirement benefit depends on:

- how much money gets paid in
- how much your fund earns from investing the money, after deducting costs and taxes.

In these funds, you take the risks and reap the rewards from your fund's investment performance.

#### Defined benefit funds

The value of your retirement benefit is defined by the fund's rules and usually depends on:

- how much money gets paid in
- how long you have worked for your employer
- how much money you are earning when you retire.

For example, your benefit might be worth four times your final salary after 20 years' membership.

If you have a defined benefit fund we would strongly suggest you seek advice from a financial adviser before closing it as defined benefit funds cannot be reinstated once they have been closed.

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### Self Managed Super funds

You can set up your own private super fund and manage it yourself, within the rules set by the Australian Taxation Office. Briefly, you must:

- become a trustee of the fund, a role that imposes important legal duties on you
- use the money only to provide retirement benefits, not to run a business or to benefit you or anyone else outside the fund
- keep detailed records so your fund can be audited.

You may need:

- around $200,000 in the fund to make set-up and yearly running costs worthwhile
- professional investment, accounting, tax, audit and legal advice to run things properly
- the time, skill and interest to manage the fund and to arrange suitable life insurance.

## Key benefits and features of super funds

The different features of a super fund are important considerations when deciding on a fund that will carry you through your entire working life.

### Contribution types

One important feature is the type of contributions that your fund will accept. These are important because they affect a range of strategies that you can use to increase savings or reduce the tax you pay. For example, if a fund doesn't accept spouse contributions you will not be able to take advantage of the tax benefits that the government provides.

As a minimum, the following contribution types should be available through your super fund:

- employer (SGC)
- personal contributions (including self employed)
- salary sacrificing
- spouse contributions
- co-contributions
- splitting of contributions with a spouse.

### Insurance

There are benefits in having your personal insurance held within super. Larger super funds can offer lower premiums because they are covering so many members on a group basis. It's also generally cheaper to pay insurance through your super rather than from your post-tax salary because through super the premiums are tax-deductible to the fund. Only salary continuance insurance is generally tax-deductible if held outside of super.

It's therefore common for insurance cover to be provided within super funds. The types of cover available are usually death, total and permanent disablement and salary continuance.

There are a number of areas you should consider when taking out insurance within your super fund:

#### Features

Features such as the level of cover available, automatic acceptance and different underwriting terms and conditions can vary greatly between providers.

#### Restrictions

You should also consider any restrictions that may be built into the cover offered. For example, you may not be able to keep the insurance cover if you change jobs. It may sometimes be more difficult to receive benefits paid under insurance held through super. For example, even if you satisfy the benefit payment requirements under the insurance policy (and so the benefit will be paid into your super), you will still need to satisfy one of the conditions of release from super (such as death or permanent incapacity) before you can withdraw the insurance benefit from your super. Restrictions could also refer to your age, dangerous jobs, part-time or casual work and maternity leave.

#### Cost

Your fund will usually charge a fee to your account for the insurance, unless your employer pays for it. Costs do vary greatly between providers.

### Investment options

Investment choice is important as it can provide you with the flexibility to tailor your super investments to meet your personal preferences and needs and potentially increase your returns.

## The choices you make now can have a significant impact on the final amount you have available for your retirement.

As a minimum, a super fund should provide at least five options to match your risk profile and asset allocation needs. Beyond that, the level of choice required will depend on the level of control you want over the investments in your portfolio and the investment program you may have in place to create greater returns.

Some funds offer default portfolios (known as model profiles, templates or managed accounts), over 200 managed funds and access to the top 300 ASX listed shares. This can provide freedom to construct a portfolio to best meet your needs.

### Investment performance

Although investment performance is important you should always remember that historical performance is not an indicator of future performance, especially over periods of one to three years. Super funds can take risks and make excellent returns in the short term but those same risks may lead to very poor returns in future years.

Where you do use historical performance as a basis to compare funds, you should use a minimum of five years performance figures. Compare products only where they have consistent objectives, asset allocations and are calculated over the same time period. For example a fund with a defensive profile consistently returning 6% over five years will generally be viewed as preferable to a high growth profile returning 8% over five years.

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

### Fees and charges

It's important to consider the cost comparison of super funds because it can impact the amount of money you have for retirement. As fees on some super funds can be difficult to calculate, you should ask your adviser for help to clarify the fees on different funds to give a clear comparison between them.

You may see the following types of fees:

- **Entry/contribution fees.** These are charged on the initial and any subsequent investments you make to the fund (or those made on your behalf, for example your employer SGC). Some funds charge and retain these fees whereas others allow you to negotiate them with your financial adviser and do not retain any fees.
- **Exit fees/penalties.** These fees can apply when you exit your fund or where you exit the fund within a minimum period of time.
- **Administration fees.** These are charged for the administration of the fund. They can be charged as a percentage of the investment (for example, 1% of the value of your account) or a flat dollar amount (for example, $55 per year). The administration fees can be made up of a number of different fees such as administration fee, trustee fee, responsible entity fee and expense recovery fee.
- **Management fees.** These are charges for the management of the underlying investments. The management fees may be fully included in the administration fees or they may be taken into account in the value of the underlying investments. It is important you understand how these fees are declared by the super fund.
- **Performance fees.** These fees are charged by the underlying fund managers where they generate performance greater than agreed standards. They are in addition to the standard management fees.
- **Other fees.** These include investment switching fees for changing the investment options in your fund and buy/sell costs where the price you pay to get into an investment option is greater than the price you receive when you sell out of the option.
- **Adviser remuneration.** This will generally apply where you receive ongoing advice from a financial adviser although in some cases it may be paid to an adviser regardless of the ongoing service being provided. As this flyer explains, advice is an important element in making the right financial decisions and we encourage you to seek ongoing advice.

### Fund services

These can include aspects such as a useful 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. Their website could show you things like:

- your overall account value
- details of the underlying investments and their values
- frequent updates (for example, daily) for the above valuations
- performance figures for your account and for each investment option
- details of fees and transactions for your account
- consolidated asset allocation of all investments
- insurance cover information.

### Other important strategy features

Super funds provide varying levels of support for strategies you might use to increase your retirement savings. You should look out for these features:

- auto-rebalancing
- nomination of specific funds for regular withdrawals
- transparency of underlying fund managers
- binding and non-binding death nominations.

### Transition to retirement

You should be comfortable that your chosen super fund can grow with you as you move from your working life into retirement.

Your super fund should allow you to move seamlessly from accumulation phase into pension phase. It should also be able to offer a range of income streams, such as transition to retirement pensions and account-based pensions, without incurring any transaction fees or buy/sell costs.

Super is a great way to save for your retirement.

## Supporting the provision of advice

Financial advice is important in helping you make the right decisions in a complex 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 rollover.

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 find the funds from your savings account.

## What's the next step?

Now that we've outlined the key benefits and features available through super, your next step is to decide which ones are the most important to you and select a super fund appropriate to meeting your needs.

Due to the complexity of super and the importance of choosing the right super fund, we recommend you consider the benefits of seeing a financial adviser.

## Things you should consider

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

IMPORTANT INFORMATION

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