

Simplest solutions aren't always best

When it comes to considering options, superannuation is worth the effort, writes Noel Whittaker

JUST three months ago I alerted you to the potential problems facing industry super funds, whose returns had been inflated by unlisted assets, many of which had not fallen to the extent of similar listed ones.

At the time, I wrote, members of super funds would do well to discuss with their advisers what proportion, if any, of their money should be invested in the unlisted asset sector - far better to act now than to face a nasty surprise later.

It was a timely warning. Just last week the Motor Trades Association of Australia super fund announced that the assets of its \$6 billion fund had dropped by more than 20 per cent to \$5 billion and its balanced fund was set to record the worst performance of the year, with a negative return of 24.64 per cent.

Hot on its heels was another industry fund, Westscheme. Its returns were a negative 20.14 per cent.

These negative returns reinforce two well-known investment principles: If it sounds too good to be true it probably is; and it is dangerous to judge any product by fees alone.

Thanks to the superannuation choice legislation, most of us can choose which superannuation fund holds our precious savings. So today, and next week, I will discuss the features that should come to mind when you are choosing a fund.

Naturally, fees are an important consideration, but I believe that transparency of fees is often a more



important issue than the fees themselves. Fees do vary between funds, but so do benefits - if the fee's easy to understand, you are well on your way to making an informed choice.

Keep in mind that the biggest fee you face is almost certainly going to be the 15 per cent that the Government takes out of every contribution your employer makes on your behalf.

Next, consider the ability to take out life insurance within the fund.

This is a tax-effective way of paying for your life insurance but the multitude of choices many funds offer can be confusing.

Can you take insurance without a medical up to a certain figure? Is the insurance available for any occupation or just a specified occupation?

Does the cover reduce as you grow older, or are you free to choose a level payout figure as long as you pay a higher premium each year? Does your fund offer income protection insurance? If so, is it to age 65 or just for two years? What proportion of your salary is covered?

The type of member service offered by the fund is critical because there is

nothing as frustrating as hanging on the phone for hours waiting for a call centre to answer or finding it will take them three weeks to answer a letter.

Service varies markedly from one fund to another but this is one area where you will need to be guided by your own experience or that of your friends.

Most funds offer a wide range of investment options but keep in mind that the assets you hold inside super are usually only a part of the total family assets.

This is why it is important to agree on an overall asset allocation with your adviser and make sure the choice of funds within super is in line with that asset allocation.

We have long recommended that retirees, or those nearing retirement, keep at least three years' planned expenditure in cash.

At this stage in your life you will be either receiving an account-based pension (allocated pension) or considering starting one.

Make sure your fund lets you switch from the accumulation phase to the pension phase without penalty and also check that the choice of assets offered by your fund while you are in the pension phase allows you to hold part of your money solely in a cash account.

If your fund does not offer a cash account, you could be forced to draw down growth assets such as shares when the market is having one of its inevitable down periods.

As you can see, a balanced comparison of super funds is not a straightforward process and it is certainly not as simple as some of those superficial ads on television might lead you to believe.

Because of the importance of the issue, I will be covering other aspects next week.

Stay tuned.

Noel Whittaker is a director of Whittaker Macnaught, a division of St Andrew's Australia. This advice is general in nature and readers should seek their own expert advice before making financial decisions. noel.whittaker@whittakermacnaught.com.au

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