10 Common Super Mistakes - and how not to make them

Steadfast
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IAS
Insurance Advisory Service

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Superannuation can be a source of much confusion and anxiety, given it is what can set us up - or not - for a comfortable retirement. It is often hard for the average consumer to compare different funds.

- Are you paying too much in fees?
- Should you be salary sacrificing extra?
- Is your super fund performing well?

Without a background in superannuation and investing, how do you know which strategy is right for you?

IAS has helped clients with their superannuation for decades and found there are a number of common – yet easily avoided – mistakes that people make. So, here we give you the low-down on what you can do to create your best retirement future with confidence.

Mistake #1
Having multiple super accounts

the mistake

Most Aussies will change jobs several times during their careers and this can result in accumulating a number of super accounts. The downside is that you are then paying multiple fees to each superannuation provider – money that could be growing your super instead.

What's more, should you pass away, your beneficiary would need to go to each provider and complete multiple paperwork to access the funds. Also, you may not have the correct beneficiary attached to each of your funds; for example, you may have named an ex-partner, which may not be applicable now.

Multiple accounts may not be invested in the best way to ensure that they are returning the funds you need in retirement (i.e. one may be a defensive fund and another may be in growth and you may need just one strategy).

the solution

Consolidate your super into one single fund and make sure all of your future contributions are made to that account for the rest of your working life.

A financial advisor can provide you with an analysis – comparing one fund against several others and looking at the returns and fees – and then outline which fund may be the best one for you to choose.

You should also complete a risk assessment with your advisor, which will examine how you want to invest your money in the share market: defensive, balanced, growth or "all on black" (high growth).

TIP: This usually depends on your age and the years to retirement, and other assets you have accumulated.

Mistake #2
Not understanding how super funds operate

the mistake

Most people have a limited idea of how super really works because it is a complex and specialised field. But knowledge is power and understanding the ins and outs of super funds a little better can help you make better choices.

the solution

It's important to compare funds and understand how they work to know if a particular superannuation fund is the right choice for you. **Some things to consider are:**

Do you know the difference between Index Funds and Active Funds? **Index Funds** are passively managed and mimic the returns of the market index. **Actively managed funds** try to beat the market by picking and choosing investments to outperform the market index. **Active Funds** typically cost more in fees and sometimes the returns are not worth the extra cost. Also, evidence that they consistently outperform their relevant index is hard to find.

What are the average returns of the funds? This can change year-on-year, but a good track record of strong returns is a solid indicator. Naturally, what this means depends on your risk profile and the current economic climate – your financial advisor can advise you as to a fund's relative performance within the market.

Understanding the trust structure of a super fund can also make a difference. For example, in a **retail fund**, a board of trustees make decisions for all trust members but in a **self-managed super fund**, each member is a trustee, or a director of the SMSF trustee company. When considering setting up an SMSF, you'll need to decide whether to have an individual or corporate trustee structure.

TIP: You have a platform that your superannuation sits on and the investment is what your money is invested in. It is extremely rare that your superannuation provider will give you discounts for being loyal and sometimes the old style of structure means it's an expensive platform to have your investments in. It is always a good idea to stress test and compare the platforms and investments every few years. This is not a set and forget.

Mistake #3
Not knowing what you're actually investing in

the mistake

Do you know what industries your superannuation fund's dollars are propping up? And, more importantly, do you care? Are you happy to be investing in fossil fuels, airports and property? Or do you feel strongly about putting your money toward clean and green industries such as sustainable energy? If you've never looked at what companies your super fund invests in, you could be in for a few surprises – welcome or otherwise.

the solution

Understanding the philosophy of your super fund is one place to start and there should be information about this in its Product Disclosure Statements (PDS) or on the fund's website.

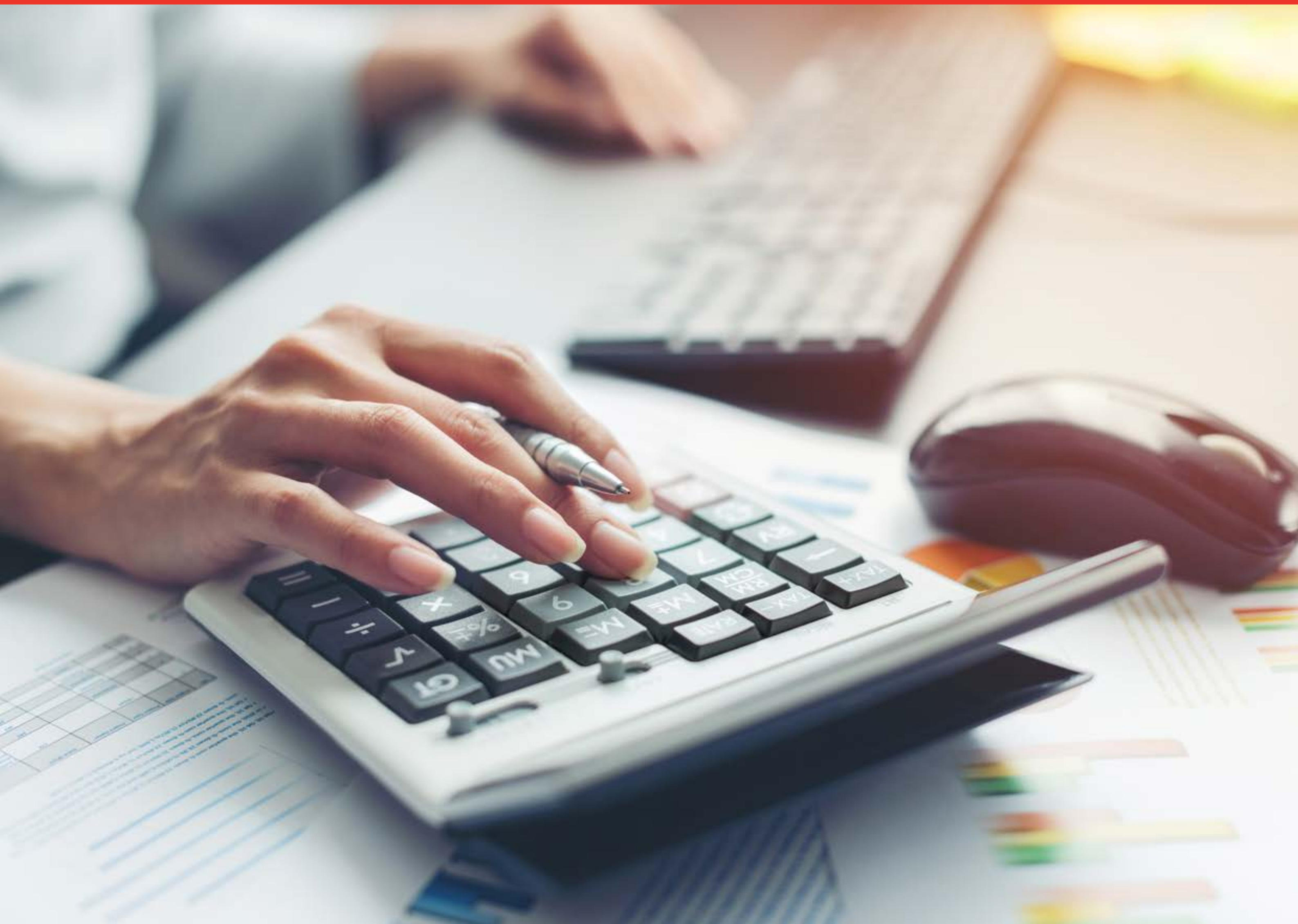
Make sure you have transparency on the investments and who is managing the investments.

These days you can also choose what are known as 'ethical super funds', which focus on investing their members' money in socially responsible ways, such as industries that are working to combat climate change or issues of social inequity.

Naturally, what 'ethical' means to one person can be different to another. It all depends on your personal values and priorities.

Mistake #4

Paying too much in fees



the mistake

Superannuation accounts come with a variety of different fees. Typically, these include:

- **Member fees** (charged for you to keep your super account)
- **Contribution fees** (deducted from your contributions to cover the expense of investing)
- **Investment management fees** (cover the cost of managing your investments)

It can be extremely difficult to compare super fund fees because industry funds do not report the same way as retail funds, which can make it seem like they are reporting higher returns, but this may not necessarily be the case.

the solution

You can, however, compare administration fees, investment fees, performance fees and membership fees – at least where funds have them – so try and review these against each other.

Generally speaking, an investment fee of 0.29% is quite low; however, you also need to know what the average returns are, because if you are paying more in investment fees and fees overall, but the returns are amazing, then you are getting what you pay for.

The easiest way to check is to talk to a financial advisor who has the software and skills to make these comparisons properly. They can then give you a breakdown of what you're paying for and what you're getting for that money.

Sometimes, a high balance in an industry fund can make fees much more expensive, so you should definitely keep an eye on this as your funds grow. Your financial advisor will inform you if this is becoming an issue.

Mistake #5

Not having a plan

The mistake

Another area that stumps many people is not knowing how much superannuation they will need to retire on. Many people just leave their super to accumulate in a fund, without giving serious consideration to what they want their retirement to look like, how they will fund it, and what they can do to stay on track over the years.

The solution

No matter how far away your retirement is, it's a good idea to have an end goal in mind for how much you would like to grow your superannuation and in what timeframe.

The first step is to take a good hard look at what you hope your retirement will look like. While we can't predict the future, we can assess the most likely variables.

How much money you will need in retirement depends on many factors:

- Do you like the finer things in life and want to be traveling when you retire?
- Or, is your focus on paying off your home so that you can be a happy homebody with a relatively low-cost lifestyle?
- Do you expect your living expenses to decrease significantly once you retire?
- Or could there be new or ongoing expenses to consider, such as helping out with your grandchildren's education?
- Perhaps you are likely to downsize your family home pre-retirement and know that this will contribute a significant amount to your final position. Or maybe you have an investment property that you can capitalise on?

Asking yourself questions such as these can help you figure out a savings goal. Your financial advisor can help you work through this and may well think of things you have not considered as they're skilled in doing these assessments. The aim is not to scare you, but to set in place strategies that will make a difference in the long run.

TIP: One broad rule of thumb is to multiply your current annual spending by 25. That's the size your portfolio will need to be in retirement for you to safely withdraw 4% of that portfolio amount every year to live on.

Mistake #6
Not maximising your contributions

the mistake

Once you've worked out what you want your retirement to look like, one way to ensure that you're saving enough to live that dream is to make extra contributions and take advantage of tax offsets, but many Australians fail to do this consistently while they're working.

the solution

There are many ways that you can increase your superannuation and it doesn't take a lot to build up more over time.

You can build your superannuation through making additional personal contributions – either from after tax money, salary sacrifice (pre-tax money) or employer contributions.

Salary sacrificing can reduce your tax because you make these contributions from your pre-tax income – adding more on top of your employer's 9.5%. If you are not already doing this, talk to your employer about setting up salary sacrifice.

Be sure to ask your financial advisor about tax effective strategies that can help increase your funds. For example, personal contributions are contributed into your superannuation in after tax dollars, so you can obtain a tax deduction by doing this, whether you are an employee or a sole trader. Don't forget that to do so you'll likely need to file a Notice of Intent to Claim (NOIC) with your super fund.

Mistake #7
Simply sticking with your employer's super

the mistake

It's easy to assume that your employer's fund is the best choice and many people simply stick with theirs without giving it too much thought.

However, employers generally don't review the group superannuation policy, or they may just choose an industry fund because it's easy to manage. This means they don't necessarily provide you the best one for your specific needs and most wouldn't have a clue on the costs and returns of the fund.

This can also lead to accumulating too many super funds over time as you change employers throughout your career which can see you paying multiple fees to different funds.

the solution

You have a choice of fund in Australia and you can nominate your own fund with the majority of employers. There are some benefits with employer selected funds, such as that the fees may be lower, but it's important to have this reviewed so you know that it's the right choice.

Have a financial advisor compare your employer's fund with other options appropriate for your age and situation to determine whether the fees and returns make it a good choice.

TIP: If you leave an employer plan, your policy will revert to the personal plan and, in some cases, this may double your fees. So, if you do decide to stick with your employer's superannuation fund, be sure to check this before you leave that employment.

Mistake #8

Not understanding the insurance that comes with your super

the mistake

A lot of people aren't even aware that they have insurance within their superannuation fund, let alone its strengths and limitations. Others assume that if they have life insurance in their superannuation that they don't need to worry about taking out a separate policy, but it may not actually be enough to protect your family. You pay for the insurance within your fund, so it pays to understand it.

the solution

Insurance inside industry superannuation funds can be expensive. It is usually provided via a unitised method, which means that some members are paying a lot more (usually the younger ones) while older members usually don't have a lot as this reduces with age. This may not be the best thing for your situation if you look at what you would like to leave your family and also depending on the debt that you have accumulated.

Insurance inside superannuation – if provided by the fund as an extra benefit – is also usually of a lesser quality. You can have a quality type of insurance funded via superannuation offered by a retail provider, and through an advisor, so it's important to understand the difference.

This means it's essential to speak with your financial advisor on the best way to structure your cover. It may prove a better strategy to take out a separate policy – and obtain a full tax deduction for that cost – rather than have those fees coming out of your superannuation balance for an inferior product.

Mistake #9
Not reviewing your strategy over time

the mistake

Because superannuation is a long game, it's all too easy to set and forget about it and hope that the future takes care of itself. However, it's important our superannuation strategy changes with us as we age.

the solution

Everyone's personal situation changes year-on-year and so your super strategy may need to change over time too.

Examples of changes that may require a review of your superannuation include:

- Changing your job
- An increase in your income
- A change in your financial goals
- Having children
- A change in your health situation or that of your spouses
- A divorce
- Family loss
- Receiving an inheritance
- Government taxation changes to super

The best way to stay up-to-date with these life changes is to always keep your annual review date with your financial advisor. Your advisor will ask questions that inform them about important changes to your situation and they will alert you when something needs to be changed in your super's structure.

The Government is always looking at ways to change and amend the system, so it is beneficial to keep updated with these changes otherwise you may inadvertently be doing the wrong thing based on previous legislation.

Your annual review includes looking at ways to reduce your tax, so that you keep that money growing in your superannuation, rather than paying it to the ATO.

Mistake #10
Not getting good financial advice

the mistake

Research by Mozo has shown that more than half (56%) of Australians surveyed had not devoted time to planning their financial future. For 55% of those surveyed, money was the key barrier to achieving their plans, while 34% suggested that 'work gets in the way'.

the solution

Good financial advice can save you money and financial planning can help you avoid common pitfalls. Your financial advisor will also make sure you don't over contribute and get fined. I have found clients who thought they were doing the right thing but have not been compliant, as most accountants do not provide this type of advice.

Financial advisors like myself are trained and experienced in spotting issues and opportunities that you may be unaware of, such as reviewing superannuation legislation changes to ensure that you are getting the most out of your contributions, which can significantly increase your superannuation balance later in life.

Time spent sorting out your superannuation now – and staying on top of it with an annual review with your financial advisor – will have more than paid off when it helps you ensure a comfortable and easy retirement.

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