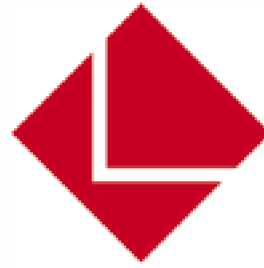


LONSDALE

Belmores Wealth Management

Is SUPER not so super anymore?

Snapshot

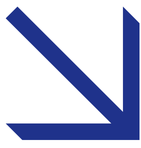
It's not surprising some investors are hesitant to be reminded of their super balance after the onset of the global financial crisis. After all, the value of just about everybody's super fund investment has shrunk. Further jolting people's faith in super has been the recent Federal Budget announcement halving the available tax deduction for super contributions from July 1st 2009. So the big question now is, "has super become a poor investment choice"?

The truth about superannuation is that it can never be a bad investment because it is not an investment at all. A superannuation fund is an investment vehicle offering attractive government tax concessions to encourage you to save for and fund your own retirement. Remember, these concessions still apply even after the Federal Budget. The most significant change, applying from 1 July 2009 if passed in the Senate, will impose a $25,000 limit to tax deductible superannuation contributions if you are under age 50. For those over age 50, a temporary limit of $50,000 will apply until 2012.

Obviously, having given you a major tax concession to save for your old age, the government has to put rules in place to prevent you accessing it before you retire.[1] This means that super (or a large part of it) is generally seen as a long term venture even for retirees. To put this into perspective, a retired couple aged 65 years today, still have an average life expectancy of 19.45 years, meaning their money needs to last at least that long with some margin for error.

This is why most professional fund managers invest a large proportion of superannuation funds in the asset class proven to have outperformed others over the long term - shares.[2] Over the last 125 years, through wars and depressions, the average return on Australian shares has been an impressive 11.2% per annum.[3]

Painfully, for all of us who have superannuation money in the share market, the falls of the last 18 months have taken a big bite out of our retirement savings and this situation may not completely recover for some time.



Snapshot

As a result, many investors are looking for an alternative that is safer than shares, one that will also help them recover the value they have lost. And there's the rub. What investment other than shares has the potential to keep on growing your nest egg to make good the losses you have already suffered, and in many cases also pay you a tax effective income stream via dividends?

Do you think something as safe and solid as a bar of gold would do it? Gold has increased in value by 300% in 50 years (from around $300 an ounce in the 1960s to $900+ today), but this only represents compound interest of 6% per annum. This is around half of the historical return on shares – and who knows what the gold price will be in 10, 20 or 30 years time.[4]

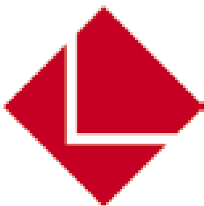
And what about that classic safe investment fixed interest deposits? While our banking system is pretty safe by world standards (though far from immune to the world's problems), fixed interest investment is very unlikely to ever recreate the wealth you have recently lost unless you have a very long time to invest. Even by harnessing the magic multiplying power of compound interest, capital invested at 5% pa today would take 15 years to double in value. Shares have historically doubled at more than twice this rate, because they offer dividend income and capital growth.[5]

And finally, that other "safe" standby, the property market, has been in the doldrums too, even though interest rates have dropped and the government has increased the subsidy for first home owners in a bid to preserve jobs in the building industry. The unfortunate facts are, when the global financial crisis hit our economy, even property, both commercial and residential property was affected and the short term future of this sector remains uncertain.

It is also important to note all investment alternatives demand the same basic commitment - time. Time for fixed interest to compound. Time for property values to improve. Time for the share market to recover.

Not surprisingly, just about every financial writer and investment specialist in Australia agrees on one thing: What the share market has taken away, the share market is most likely to replace over time and exceed. It is just a matter of when. Remember, superannuation is a concessionally taxed investment vehicle, not an investment, and what you do within that vehicle is the key.

1. Superannuation can be accessed from age 55 (if conditions of release are satisfied) or alternatively reaching age 65.
2. Diversification is always an important consideration, and you should seek advice before choosing an asset allocation for your investments. The average superannuation 'default' fund allocates between 60%-70% of funds to growth based assets (shares, property and alternative investments).
3. Perennial – Economic and Market Outlook February 2009
4. Datastream
5. Datastream



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