Superannuation is on the downturn but don't panic, writes Smart Money editor **ANTHONY KEANE**.

Experts: Nest egg will grow again

HOW YOUR SUPER GREW

Opening balance $100,000

2000-01 5.6%* $105,600

2001-02 -3.1%* $102,323

2002-03 0.1%* $102,429

2003-04 13.2%* $115,949

2004-05 13.1%* $131,139

2005-06 14.5%* $150,154

2006-07 15.7%* $173,728

2007-08 -6.0%** $163,304

* Median returns of 50 of the largest balanced options super funds ** Year to end of March. Source: SuperRatings

SUPER by name but not always by nature, as millions of Australians are quickly discovering.

Turmoil in global financial markets has put superannuation fund returns on track for their first negative year since 2001-02 but the message from the industry to fund members is "don't panic".

It can be a little soul destroying to find your retirement saving is worth much less today than it was a year ago, even after your employer has been pumping 9 per cent of your wage into your super for the past 12 months.

Research firm SuperRatings says bad share market returns in March have resulted in the typical balanced super fund's returns being down 6 per cent since the start of the financial year.

With little hope of a big improvement over the next three months, fund members who haven't checked their fund's progress online are in for a nasty surprise when they get their annual statements later this year.

More than 80 per cent of Australians leave their super in their fund's default option – typically a balanced mix of investments comprising about 30 per cent Australian shares, 20 per cent international shares, 10 per cent property and the remainder in conservative investments such as cash and bonds.

SuperRatings managing director Jeff Bresnahan says while yesterday's strong showing on the share market has clawed back about 1 per cent of super's losses, he does not expect 2007-08 to end in positive territory.

"Share markets need to put on about 10-11 per cent between now and June 30 to recoup the losses. Anything can happen but we are nine months into the financial year and we have got volatility all over the world," he says.

Share markets everywhere have fallen badly since last year, with problems in the U.S. mortgage sector sparking debt problems and company collapses all over the globe.

Even after yesterday's rebound, Australian shares are still down almost 20 per cent since November last year.

South Australia's two biggest superannuation funds, Super SA and Statewide, have not escaped the downturn.

Industry fund Statewide has more than 160,000 members and its default investment option was down about 6 per cent for 2007-08 as of late last month. Super SA, which administers State Government super schemes, has more than 170,000 members and its main Triple S fund's default option is down 6.5 per cent.

Super SA general manager John O'Flaherty says the share market downturn has left some members wondering what it means for their super.

"The message Super SA is giving to members is 'don't panic'," he says.

"We have always reinforced taking a long-term view in our communications with them and we always present the five-year returns before the three-year and one-year returns in our reports and statements.

"The good news is that, in our experience, members aren't panicking and are keeping their focus on the long term."

More than 94 per cent of Super SA's members in the main Triple S fund have their money in the default balanced option, which invests 56 per cent of its funds directly in Australian and international shares and 9 per cent in property.

Mr O'Flaherty says periods of negative investment returns are part of normal market volatility.

He says super should be viewed as a long-term investment.

"Don't check your super balance every day; keep looking at the big picture and don't be distracted by short-term investment hiccups.

"We've been through a period of extraordinary investment growth with unprecedented investment returns. This is not the norm. Recent corrections have brought the market back to where it was 12 months ago, which is still ahead of projected returns."

SuperRatings data shows that in the past four financial years, balanced super funds grew by 13.2 per cent, 13.1 per cent, 14.5 per cent and 15.7 per cent.

Over the long term, realistic annual growth should be about 8 per cent from a balanced fund.

> **"Recent corrections have brought the market back to where it was 12 months ago**

Mr O'Flaherty says people thinking of changing their super to a more conservative investment option should remember that their losses are only on paper until they take their money out or switch investment options.

"You might wish to talk to a financial planner to help work out what's best for you," he says.

ADELAIDE financial strategist Theo Marinis says switching to the safety of cash now might be the worst possible thing super fund members can do.

"I haven't got a crystal ball, but we might have seen the bottom of the market already," he says.

"If you get out now you are selling at the wrong time."

Mr Marinis, the managing director of Marinis Financial Group, says the downturn, while disconcerting, is not unusual.

"What was unusual was the previous four years of gangbusters growth," he says. "It's not the end of the world and the sky's not falling in."

Mr Marinis says when the stockmarket crashed in 1987 – losing 25 per cent of its value in just one day – people were talking about it being the start of a 20-year depression.

"1987 now looks like a blip on the horizon," he says.

"We will look back at this downturn in a couple of years' time and it will be a blip on the horizon."

With superannuation, time is on your side.

It generally cannot be touched until you retire, or at least reach your mid-50s.

And even those who have retired should not be too worried about the current market turbulence, Mr Bresnahan says.

"Very few people need to cash out their super or are affected in the long term by this stuff," he says.

"If someone is 64 and has seen the market go down, they don't need to access all their money straight away. They have still got 15 to 20 years left in the superannuation system – that's more than enough time for the markets to recover those losses and more.

"Various studies have shown that many investors switch into cash at precisely the wrong time and miss a significant part of any market upswing."

With the potential to have all of your retirement savings at call and completely tax-free after age 60, superannuation remains one of the most powerful investment vehicles available.

Financial Strategies (SA) Pty Ltd trading as Marinis Financial Group
67 Kensington Road, Norwood SA 5067 T 08 8130 5130 F 08 8331 9161 E admin@marinisgroup.com.au

MARINIS FINANCIAL GROUP