SUNDAY BUSINESS

The traps and tips to fatten your nest egg

SUPERANNUATION SHOULD NEVER BE SET AND FORGET, BUT SOMETIMES SWITCHING CAN BE TRICKY

Anthony Keane

Superannuation funds have been busy announcing impressive investment returns for members following a strong financial year, although their latest leaderboard has some sizeable variations.

Research group SuperRatings examines funds' returns and says the median balanced option is expected to deliver members an estimated 8.8 per cent return for 2023-24.

Some funds were quick to announce bigger gains: Australian Retirement Trust achieved 9.9 per cent for its balanced option while Colonial First State's balanced fund returned 12.1 per cent.

Others were slightly below the projected median, with AustralianSuper's balanced investment option at 8.5 per cent and Rest returning 8.7 per cent.

Several funds will be further below the midpoint of overall returns, but super specialists say people should never switch based on a single year's performance.

Hundreds of thousands of new member accounts are opened, closed and switched every year, according to superannuation regulator APRA.

Super Members Council executive general manager strategy Matt Linden said an average $10bn annually had been switched to industry funds, mostly from retail funds, over the past seven years.

"This net movement was initially driven by the Royal Commission, which put a spotlight on fund performance," Mr Linden said.

"Switching activity has tapered since then."

TIME FOR A CHECK-UP

Mr Linden said super remained a "set and forget proposition" for many people, but even small differences in performance added up in the long term.

"A 1 per cent difference in investment returns over a full working life for someone on the median age-based wage can mean $107,400 less in superannuation.

"The end of each financial year is a great time to check your fund's performance – look out for your annual super statement soon.

"When comparing funds, always compare long-term performance – ideally more than 10 years – and compare net return on investments. That is investment returns minus investment and administration fees. That's the only way to make a true comparison."

Aware Super chief of staff Katrina McPhee said in the past there was a lot of switching when people moved from one job to the next, by the government's stapling reforms a few years ago meant people could carry their super accounts between jobs.

"When people switch now, it's mostly because they've received advice or they're taking an active interest in their super," she said.

"This is really heartening, and indeed, I'd stress the importance of taking a strong interest in your super. I'd like to think that over time we'll see a pick-up in switching activity as more and more people really drill down into the returns and service they're getting."

Ms McPhee said anyone with a super fund that was under-performing over the long term should "give serious consideration to switching".

"When it comes to comparing funds, ratings agencies like Chant West and SuperRatings do a lot of the work for you through their awards programs, so factor them in as you do your homework," she said.

HOW TO SWITCH

The idea of piles of paperwork and uncertainty may scare many people off switching, but technology has made it much simpler.

"In the digital era, switching funds is generally a seamless experience," Ms McPhee said. "Most funds will let you join and open an account online in minutes. You'll then need to give your employer details of your new fund for your super payments. Many funds help you through this process by contacting your employer on your behalf, or providing pre-filled paperwork to pass on to your employer."

Consolidating multiple superannuation accounts into one fund was also easier to manage and could save people money by resulting in just one set of fees, Ms McPhee said.

"Many funds have online tools that walk you through this process in a few moments, and they'll handle the transfer on your behalf," she said.

People also can consolidate super funds through the federal government's MyGov platform.

Advice service Moneysmart.gov.au says it can be easily done online through this step-by-step process.

- Go to my.gov.au.
- Log in or create an account.
- Link your myGov account to the ATO.
- Select "Super" and then "Manage".
- Select "Transfer super". This option will only appear if you have more than one super account.

"This will show you all of your super accounts and let you transfer your balance from one to another," Moneysmart says.

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>
> Katrina McPhee
> Aware Super chief of staff

HOLD YOUR HORSES

Just because it's quicker and simpler to switch super does not mean you should do it immediately.

There are costly traps that await the unwary, and switching your life savings should never be a knee-jerk reaction.

Ms McPhee has a key message on this: "don't rush".

"Be thorough," she said. "The process of switching in this day and age is fast and easy, but it's still crucial that you take the time to get it right.

"Do your homework or get advice. Be confident that the fund you're moving to has a track record of delivering strong long-term returns and a really helpful range of services and advice to support you at those moments of significant change."

IT'S A TRAP!

Insurance, capital gains, market timing and tax-deductible contributions are among the problems that can plague super switchers.

Financial strategist Theo Marinis switches a lot of clients to superannuation platforms that use low-cost index funds that "save them tens of thousands in fees".

He said one of the biggest traps when switching was potentially losing life insurance cover.

If all your money disappears from one fund, the attached insurance disappears too, and as people get older and health issues accumulate during their lives they might find it difficult to get new life cover.

"Even if we recommend new cover for somebody, we don't replace the old cover until we have the new cover," Mr Marinis said.

"Sometimes it's worth keeping the old one open with a modest balance to keep the insurance in place."

Mr Marinis said some super fund members might be hit with an unexpected tax bill if switching super funds.

"There can be capital gains when moving from one fund to another, although generally not in industry funds," he said.

While industry funds typically

Five smart ways to use your tax refund this year

Karen Eley

More than nine million Australians will receive a tax refund for this financial year, with the average amount being $2331, based on Australian Taxation Office figures.

While it may be tempting to view this as free money and you have a free pass to spend it on whatever enjoyable or indulgent item you like, let's be clear that this is your money and income that was overpaid to the ATO.

This year you have two reasons to be mindful and deliberate with the allocation of your tax refund, as the Stage 3 tax cuts also take effect and hit your pay packet this month.

By combining both the tax cuts and tax refund, let's explore some strategies to start this financial year on the right foot.

1. PAY OFF DEBT

This option may not scream good times, but using your refund to pay off credit cards or high-interest debt is a smart choice.

Reducing your debt not only provides financial benefits in the form of reduced interest costs, but can also reduce stress associated with carrying debt. You could also use some of the tax cuts for additional monthly repayments to pay off your debt sooner.

2. ADD TO YOUR EMERGENCY FUND OR SAVINGS ACCOUNTS

After another year of high interest rates and cost-of-living increases, many of us have depleted our savings or emergency buffers to subsidise higher living costs. Your tax refund can be a good way to replenish eroded savings. A boost to your bank account can also provide a financial safety net for unexpected expenses such as car repairs or medical bills.

3. BUY SHARES

With the rise of micro-investing platforms, it's easier than ever to buy shares, and you can start with a small amount, such as the average tax refund. Some platforms will let you invest with $1 so there's no reason not to join the 51 per cent of Australians who invest in shares.

ETFs (exchange traded funds) are a great way to get started, as they diversify your investment across several companies. Remember, share investing typically requires a long-term commitment of at least seven years.

4. CONTRIBUTE TO SUPERANNUATION

Enhance your retirement savings by making a personal super contribution. An extra $2331 per year, earning an annual return of 8 per cent, would increase in your super balance by $63,292 over 15 years. There are different types of contributions you can make, and some have additional tax benefits. If you earn less than $45,500 this financial year you could be eligible for a government co-contribution of up to $500. Depending on your financial situation, you could consider using some of your stage 3 tax cuts to salary sacrifice to super and boost your retirement savings.

5. INVEST IN YOURSELF

Consider upgrading your skills by enrolling in a course, obtaining new qualifications, or launching a side hustle.

While returns on this investment may take longer to materialise, investing in yourself can lead to new or better job opportunities. A successful side hustle may lead to an additional income source to supplement employment.

Alternatively, consider health treatments that enhance your wellbeing and avoid future medical expenses.

Regardless of your refund amount, it's worthwhile taking time to think about smart ways to make this money work for you. Perhaps the smartest strategy is to spend your refund on the fun and frivolous, but at least now you've considered other options for this 'free money'.

Karen Eley is a certified money coach

Scott Pape is on leave

have investment units where the price of each unit incorporates capital gains and losses, retail investment platforms often leave capital gains and losses flowing through to the individual fund member. As capital gains tax no longer applies once a person switches their super to an account based pension after age 60, there may be timing issues to consider.

"Sometimes there will be costs, but then you do a cost-benefit analysis," Mr Marinis said.

Tribeca Financial CEO Ryan Watson said other traps could include exit fees and having your money spending time out of financial markets – potentially painful in a boom period.

"Sometimes it can take superannuation funds four-to-six weeks to sell down your investments, move them to your new fund and then reinvest them," Mr Watson said.

"This could mean that you miss out on some investment time in the market," he said.

Another big trap that sneaks past super fund members and some financial advisers (and the author of this article!) is when trying to claim tax deductions for money voluntarily injected into super the previous financial year, but switching too soon.

Ms McPhee said: "if you've made voluntary contributions to your existing fund and intend to claim them as tax deductions, you must fill out a 'notice of intent to claim' form with your existing fund – and, importantly, receive a letter of acknowledgment from the fund – before transferring your super".

"If you don't, and your super is transferred first, you won't be able to claim these contributions as a tax deduction," she said. "It's an easy trap to miss. Thankfully the process of filing the 'notice of intent to claim' is also very easy."

These tax-deductible contributions, concessional contributions, can now total $30,000 a year so the potential financial loss from missing out can be significant. The Australian Taxation Office says once a concessional contribution leaves a fund, it is no longer a concessional contribution.

MAKING YOUR MIND UP

Ms McPhee said it was not just financial performance that could make super switching a good idea.

"Look into the level of service available from your fund," she said.

"Milestones in life – like having children, career changes and retirement – can sneak up remarkably quickly, and your circumstances inevitably change when they do. So look for a fund that offers a wide range of help, guidance and advice services – everything from educational seminars and webinars to online tools and simple advice at no extra cost."

Tribeca's Mr Watson said his firm was seeing more people take an active role in their superannuation.

"We are seeing people seek financial advice around investment structure, investment returns and administration fees," he said. "Finding the balance between these three keys areas can add tens of thousands of dollars to your final retirement benefit.

"Switching your superannuation fund is only a good idea if you are making an informed decision. Too often, people move between superannuation funds without doing the appropriate research, and this can lead to unintended negative outcomes.

> **The end of each financial year is a great time to check your fund's performance.**
>
> **Matt Linden**
> Super Members Council executive general manager strategy

Little-known tip to boost super savings

Money Man
Brenton Miegel

I am 58 years of age and was recently watching a YouTube video regarding superannuation. The financial guy presenting was saying a little-known fact on salary sacrificing is if you don't use the full, say, $30,000 concessional contributions each year, that you can then claim the extra as more that can be contributed to your super at the end of the financial year for the three years if your balance was below $500,000. Can you clarify this, as it doesn't really make sense. How do you go about it? It's in the carried forward concessional contributions. If this is correct then I may do it for last three years.

You are able to carry forward and apply available unused concessional contribution cap amounts from any of the previous five financial years to increase your concessional contribution cap in the current financial year, provided your total superannuation balance is less than $500,000 as at June 30 in the previous financial year.

You are able to confirm this in the taxation portal on your MyGov account, or by contacting the ATO.

This strategy has a couple of benefits, not least of which is the ability to reduce your potential income tax in the financial year(s) that you make unused concessional contribution cap contributions.

It is also an excellent way to bolster your superannuation and retirement savings for your future.

It is critical you do not exceed the concessional contribution cap and seeking professional financial advice may be necessary to ensure this does not happen.

I am aged 63 and retired. My super account ($256,000) is still in accumulation mode. It is my intension to withdraw $50,000 to buy a new car. I intend to replace this amount into my super account when I receive my mother's inheritance. Does my super account still stay in accumulation mode after this withdrawal, and can I add additional funds to it?

Your superannuation would remain in accumulation phase until you roll it over to an account-based pension.

Accessing the $50,000 to purchase the new car would be seen as a commutation, and would be tax-free as you are over age 60.

Anyone is able to add additional funds to superannuation up to the age of 75, no questions asked. You need to remember that the non-concessional contribution cap is in place.

This means you are limited to $120,000 a year (from July 1, 2024) or $360,000 if you use the bring forward provisions that are available.

You may want to seek the advice of a professional financial planner to ensure you can maximise your super contributions at the right time.

EMAIL YOUR QUESTIONS TO SUNDAYMONEY MAN@NEWS.COM.AU

Brenton is a director and an authorised representative of Goldsborough Financial Services Limited. His advice should be considered as an opinion. Readers should consider engaging their own personal financial adviser. Questions and answers may have been edited for length.

SHARE tips

Jed Richards
Shaw and Partners

BUY

APA Group (APA)
A gas pipeline, solar and wind farm infrastructure holding, paying a sustainable and growing yield, with increased franking in 2025. Current price presents attractive entry level.

Woodside Energy (WDS)
A leading global energy business, poised to benefit from increasing oil and gas demand, which should see prices rise in coming years. Energy stocks also provide a hedge against the current geopolitical concerns.

HOLD

Whitehaven Coal (WHC)
Strategically pivoted to coking and met coal, at 70 per cent of revenue. Given supply constraints and a strong demand from India, we are increasingly positive,.

Car Group (CAR)
Continues to lay foundations for longer term growth within Australia and internationally. The company has dominant market position across multiple markets.

SELL

Goodman Group (GMG)
Outperformed the broader market over the last 12 months on rising global demand for data centres as AI use grows. Much of the good news is already priced in.

ASX Ltd (ASX)
Has struggled with subdued activity levels. Timing uncertainty around IT projects and replacement technology.

Chris Haynes
Equity Trustees

BUY

Brambles (BXB)
Engages in development of supply chain logistics solutions, focusing on reusable pallets and containers. Recent price weakness an opportunity for long-term investors.

Telstra (TLS)
Earnings will show solid growth over the next few years driven by productivity initiatives and better pricing in mobile phones. Has solid yield of 5 per cent, trading on an attractive price to earnings ratio of 21 times.

HOLD

Treasury Wine Estates (TWE)
The recent acquisition of DAOU Vineyards in the US plus continued slowdown in consumer demand should see the stock trade relatively flat.

Seek (SEK)
New job ads on Australian site down almost 20 per cent over the last year and may have further to go. Share price has factored in a lot this weakness so value could emerge.

SELL

a2 Milk Co (A2M)
Share price has recovered well over the last year. Challenge will be to continue to grow in the Chinese market.

Pro Medicus (PME)
One of the best performing companies on the stock exchange this last year. Might be prudent to take profits.

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