Grow @ Marinis Group

From: grow@marinisgroup.com.au
Sent: Friday, 17 May 2019 10:39 AM
To: Alex Wiedenmann | Marinis Group

Subject: Will you run out of Super?

Dear Friends,

Will you run out of Super?

I was a little taken back to read that 25% of respondents to a political survey said they were worried they would run out of super, so I decided to address this issue for my clients.

Will you run out of super?

The answer is no; provided you continue to follow the strategy we have planned together.

There are several reasons for making this statement.

I generally recommend that our clients plan on receiving an annual investment return of 5.0% – even though the 30-year average return has been 'Aust. Shares 9.1% and International Shares 7.4% pa' (Vanguard 2018 Index Chart – see table below).

Over the last 30 years a 'balanced' super or pension fund (for MFG clients 'balanced' means a 65% growth asset exposure with the remaining 35% invested defensively) would have returned 7.47% p.a.

Therefore, for every $100 invested, on average you will earn **$7.47 pa**. In pension phase, $5.00 of that return will be taken as pension income, and your investment will increase by **$2.47** to **$102.47** pa. In the absence of hyper-inflation, this is a great position to be in.

Furthermore, as you are well aware, I consider gambling a tax on lack of intelligence; I much prefer a 'rational' bet.

Those of you who have been with me for more than a decade will know we recommend that your portfolios are regularly rebalanced. This ensures that the asset allocation continues to reflect, as closely as possible, your preferred exposure to growth versus defensive assets – and that all asset classes are appropriately diversified to spread investment risk.

You will also recall just prior to the GFC, this process of rebalancing meant selling down some of your holdings in Australian equities (which at the time were booming) and using the proceeds to re-weight your holdings in international shares, which were performing quite poorly.

Whilst many questioned my contrarian attitude, I pointed to logic and experience that markets do not 'gallop' forever. We rebalanced ALL of our clients' portfolios and – in keeping with my philosophy never to recommend to a client to do something I would not do in respect of my own retirement savings – I also rebalanced my own portfolio. We are in this boat together, and it is my belief that this attitude helps to avoid mistakes and builds confidence.

What happened? We were all positioned to take advantage of the inevitable upswing in international markets.

This advice is part of what you pay us for.

Now, when it comes to the central question of running out of money in retirement, we must remember to park our fears. That means relying on the strategy we have developed together – and part of that strategy is to expect the markets to crash from time to time. (I think I predicted this to occur three times last year, and I was wrong).

But, as Game of Thrones fans well know – "Winter is coming….."

There will be another market correction, and another, perhaps even a recession. Being an economist by training (as regular readers of eGrow will know), there is a theoretical expectation that investment markets will correct, on average, every seven years.

Part of good financial planning advice, therefore, is to educate our clients to expect and prepare for these periodical downturns. That's why we recommend drawing down a maximum of 5% from portfolio returns, and why we recommend holding the 'Marinis Buffer' – the equivalent of two years' income in cash – to act as a shock absorber when market returns are down.

Of course, sometimes there are unexpected and unavoidable financial issues and associated costs. A grandchild might need medical treatment in the US, or a family business might collapse; we may need to delve into our super. Obviously, this will have an impact on retirement savings.

The good news is that when combined asset balances reduce to $387,500 (family home excluded) a couple is currently eligible for an age pension of $35,360 pa (including Pension Supplement) effectively TAX FREE.

A super balance of $350,000 at a 5.0% pa return will generate $17,500 pa – and when combined with the full Centrelink Age Pension, this will produce a total tax free income of $52,860 pa – the equivalent of a teacher's wage after tax and super.

There are now also opportunities to downsize from the family home and top up super with the balance of the proceeds. For couples over 65, who have lived in their home for a decade, the top up can be up to a maximum of $300,000 each. We are regularly seeing clients (new and existing) employing this strategy.

There are also some realities of life about our 'super spend' which makes me confident in saying we will not run out. The first five years after retirement are generally the most expensive. This is when we go on a few overseas holidays, buy a boat or a van, and travel the back roads.

Then we tend to hit the 'grandparent years' and stay around home more. We garden, and we help out with the next generation – and we often require some 'maintenance' – perhaps a hip or knee replacement. But living expenses tend not to be as high, so we tend to cope very well with our super income. This observation is also supported by various super reports which regularly confirm that most retirees are frugal, tending to spend less than they can afford, particularly later in retirement.

A further important aspect of keeping superannuation balances robust is to maintain a vigilance on investment costs. I constantly challenge our team to find good quality, flexible products which keep investment management fees as low as possible.

As an individual investor, I demand transparency in fees and charges, and that any associated commissions are rebated. This is the deal I also want to be able to offer my clients, and I am very happy to share my personal financial situation with anyone who is curious to see how I 'walk the talk'.

And one more thing - is 'sin' in?

From time to time some very well-intentioned clients ask me about 'sustainable' investing, an approach which aims to avoid the so called 'sin' stocks and concentrate on investing in those which have a proven track record of environmental, social and people outperformance.

I commend their admirable intentions. I have regularly directed those who are keen on this form of investing to funds that specialise in it.

My colleague Jason Zanini recently carried out some interesting research which uncovered two points around 'sustainable' investing that I think are worth flagging; these funds are more expensive and – they perform poorly when compared with other funds.
Sadly, the 'sin' stocks tend to outperform.

From purely an investment view point, I do not recommend buying 'sustainable' funds – but I will always do as a client asks – and point out that such decisions are enriching others at their expense.

There are other ways to do direct good. Donate your outperformance to a worthy cause, buy the product directly yourself, buy shares in a capital raising (so that the money goes directly to your preferred company) or – buy shares directly.

If buying a 'sustainable' fund is in line with your values, and you are aware of the full cost, it may make you more comfortable in your retirement because you know you are investing in organisations that share your values. Some food for thought.

If you are interested in seeing a comparison graph, please click **here**.

As always, if I, or any of the team, can be of assistance, please do not hesitate to call us on (08) 8130 5130.

Source: Vanguard 2018 Index Chart Returns					
	Weighting	**30 Yr. % pa**	**% Ret. Cont**	**Total Fees**	**Net Return**
Cash	15%	6.1%	0.92%		
Aust. Bonds	10%	8.0%	0.80%		
Inter'l Bonds	10%	8.7%	0.87%		
Listed Property	7%	8.5%	0.60%		
Aust. Shares	29%	9.1%	2.64%		
Inter'l Shares	29%	7.4%	2.15%		
	100%		**7.97%**	**-0.5%**	**7.47%**

Yours Sincerely,

Theo Marinis B.A., B.Ec., CPA., FPA®
Financial Strategist
Authorised Representative

GROW @ Marinis

Financial Strategies (SA) Pty Ltd | **ABN** 54 083 005 930
Trading as **Marinis Financial Group** | Australian Financial Services Licence No: 326403

P 08 8130 5130 | **F** 08 8331 9161 | **E** grow@marinisgroup.com.au
A 67 Kensington Road, Norwood SA 5067 | **W** marinisgroup.com.au

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The cost of 'sustainable' super may not match performance

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Author Kirby Rappell
Title Executive Director
Date March 25, 2019
Category News (https://www.superratings.com.au/category/news/)

Super members searching for a 'sustainable' investment fund are exposed to the same challenges as those in more traditional funds with the sector delivering a wide range of performance outcomes and charging a range of fees, according to new research on the sector by superannuation research house SuperRatings.

The SuperRatings research reveals that the median performance of 'sustainable' investment funds is lower than the median performance of the SuperRatings SR50 Balanced (60-76) Index, comprised of traditional balanced super funds. Furthermore, the 'sustainable' funds have higher median fees. The combination of the two means a sizeable number of 'sustainable' funds produce sub-optimal returns at relatively high fee levels. 'Sustainable' funds include funds that select their investments based on environmental, social and governance (ESG) factors.

However, there are a number of 'sustainable' funds that outperform the market, while some also have lower fees than many Balanced options. The chart below reveals that the top quartile of sustainable funds charges a total fee of $519 or less per annum on a balance of $50,000, compared to the median SR50 Balanced (60-76) Index fee of $606. Looking at returns, the top quartile of 'sustainable' funds has delivered a 10-year return of 8.9% or more per annum, which is in line with the SR50 Balanced (60-76) Index.

Sustainable super fund fees and returns

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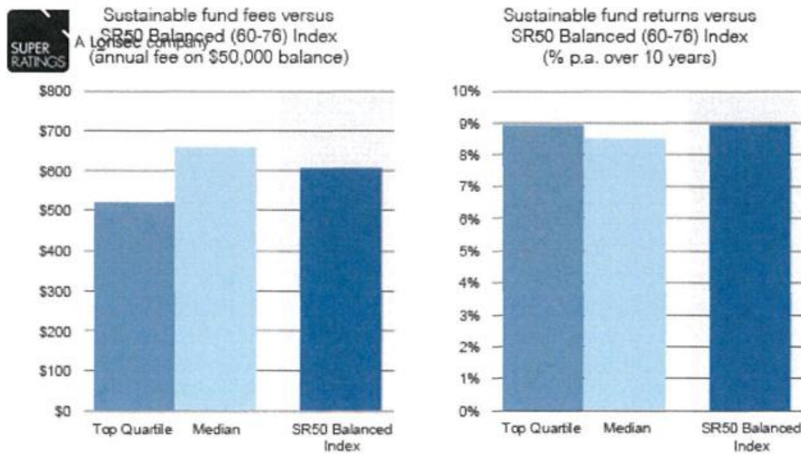

Source: SuperRatings

The below table shows the top returning super funds that are classified as sustainable due to the fund's incorporation of ESG and socially responsible investing criteria. HESTA's Eco Pool balanced option has delivered the top return over 10 years of 11.1% per annum, which is considerably higher than the SR50 Balanced (60-76) Index return of 8.9% per annum.

Top performing sustainable super funds

Fund	Total fee on $50k balance	10-year return (% p.a.)
HESTA – Eco Pool	$670	11.1%
VicSuper FutureSaver – Socially Conscious Option	$463	10.3%
AustralianSuper – Socially Aware	$448	10.0%
WA Super Super Solutions Pers – Sustainable Future	$573	9.5%
UniSuper Accum (1) – Sustainable Balanced	$281	9.3%
Sustainable Balanced option median	**$662**	**8.5%**
SR50 Balanced (60-76) Index median	**$606**	**8.9%**

Returns over 10 years to 28 February 2019

Source: SuperRatings

There are a range of factors that must be taken into account when assessing the extent to which ESG factors affect a fund's investment decisions, as well as the cost involved. For example, some funds may apply a simple screen on certain industries, while others may conduct more in-depth analysis on individual businesses, which may justify a higher fee. This makes it difficult to provide a definitive ranking of sustainable fund performance.

When considering sustainable alternatives, it is important to look at each individual fund's mandate, their process for investing sustainably, and of course the industries and businesses they do and do not invest in," said Mr Rappell.

"When we speak to financial advisers, they tell us that ESG factors are becoming more and more important for their clients. Advisers need the capability to examine and compare sustainable funds to ensure that the product is the best fit for their client both in terms of their risk and return preferences, as well as their social and environmental values."

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For more information contact:

Gordon Toy
03 9623 6373
Gordon.Toy@lonsec.com.au (Gordon.Toy@lonsec.com.au)