AGE: 20s KEEP YOUR BALANCE

Time is on your side, so there's no need to take a lot of risk or to panic when sharemarkets are volatile

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Those in their 20s are very fortunate to have the superannuation system in place to support their retirement. By the time they are ready to retire, super has the potential to be one of their largest assets. Advice for the 20s is to get to know your super now.

To start, take the time to do research or seek advice on the fees you're paying – a good guide is to aim for under 1%pa of total administration and management fees.

If you've had multiple part-time jobs in the past, you may have funds that you are unaware of. You can search for any lost super via the tax office's SuperSeeker website.

If you're earning less than $51,021pa and more than 10% of your income comes from employment-related activities, your super fund could receive up to $500 from the government if you make a personal contribution of $1000. It's called the co-contribution and it's definitely an investment worth considering. Your $1000 contribution today, adding the government's $500 and 8%pa earnings in your super fund, will turn into $15,000 over 35 years!

You are likely to have automatic insurance within your super and it may be more or less than you need. It's worth paying for advice about suitable cover, as the product options are vast, the calculations can be complex and there are tax implications if you need to claim on insurance within super before 60. Common needs for your 20s are to consider how life would look if you were to have an accident or illness that prevented you from working. How would you cover the mortgage/rent and living expenses? Do you have a partner or children to support? The good news is that cover is cost effective at this age and your health is probably as good as it will ever be – so don't hold back on getting the advice and paying for an appropriate level of cover. Don't just expect to rely on mum and dad!

The investments you choose will have the biggest impact on the growth of your super over time. The No. 1 rule is to make sure you are diversified – don't have all your eggs in the one basket – for example, not 100% Australian shares, or 100% fixed interest, or 100% international shares. The academic evidence shows us that a balance across all asset classes is your best defence against loss of capital over the long term.

It's common for young people to feel comfortable with 100% growth-based assets, on the grounds that they have plenty of time to recover if markets are bumpy. Be mindful, though, that performance and risk are always related and that a high-performing fund is likely to be taking a high level of risk to achieve that performance. Past performance

CHECKLIST
KNOW YOUR FUND

- Take an interest in your super and get to understand it.
- Look at the fees you're paying – aim for under 1%pa for both administration and management.
- If you earn less than $51,021pa get the government to top up your super by making an after-tax contribution.
- Look at your insurance cover – is it too much, not enough or just right?
- Make sure you are diversified.
- Understand risk and volatility.
- Consider your other goals – for example, if you are saving for your first home you might hold off on topping up super.
- Consider salary sacrificing but be aware of your contribution caps.

is not always an indicator of future performance and you need a strategy that you're comfortable holding in the good times and the bad. The maths show us that young people do not need to take a high level of risk to have successful investment outcomes for retirement, because time will do much of the work for them. They just need to remain disciplined and stay invested during periods of volatility. We suggest seeking personal advice but if you're going it alone our experience is that young people can afford to take a more balanced approach with their investment selection, to even out the highs and lows and increase the probability of achieving their long-term outcomes.

A 60% growth and 40% defensive asset allocation – commonly referred to as a "balanced" profile – aims to target a long-term return in the vicinity of 8%pa. However, care should be taken to check what "balanced" means within each super fund you're reviewing, as it can differ. One fund we saw recently had 90% growth and 10% defensive but was called balanced.

The No. 1 rule is to not have all your eggs in one basket

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▶ CASE STUDY

Jenny is 25, starting her career today with a zero super balance, earning $75,000pa and, assuming no major career progression, just indexation on this salary. She will potentially receive up to $435,000 of employer-mandated contributions over her 35-year working career.

The compound effect of this employer money growing in the low-tax super environment could see this amount to $1.34 million by 60, if targeting an 8%pa return by investing in a diversified option (60% growth) without further personal contributions.

At 60 $1.34 million has the potential to provide her with an equivalent lifestyle that she's lived throughout her working years without worrying about running out of money. This also allows for reducing her expected rate of return in the retirement years – only 6%pa instead of the 8%pa during her working life. To achieve the 6%pa return, we could suggest a much lower exposure to growth assets – in the vicinity of 20% rather than 60%.

Making contributions to your superannuation in your 20s needs to be carefully considered in light of your housing goals. If you are saving for your first home, we would probably discourage super contributions until this goal has been achieved.

- **Buying a home:** We assume that Jenny spends the first four years of work saving for a home deposit and purchases a first home at 29 for $400,000 with debt of $320,000 at an interest rate of 5%pa. If focusing solely on repaying this debt, she could potentially repay it by 47. Salary sacrifice contributions to super can be very tax effective and helpful towards building the retirement bucket once your home ownership plan is under way. However, this will result in taking that bit longer to pay off your home loan.
- **Salary sacrifice:** Just $200 a month of salary sacrifice for 31 years of Jenny's 35-year career could see her with a balance of close to $1.7 million – an extra $350,000. However, it may then take her an extra two years to repay debt. That seems like a worthwhile balance of goals.

Interest rates are likely to be a factor in your decision here as well – low interest rates would see you possibly better off salary sacrificing to super where you can aim for a higher rate of return than the current interest rates. But if interest rates were to rise, you would possibly consider tackling higher debt repayments. This is one of the great benefits of a super strategy – you can stop and start your contribution level as it suits. Just keep your eye on the annual federal budget, as the maximum super contribution limits have been changing regularly.