When is a balanced option really the right one for you?

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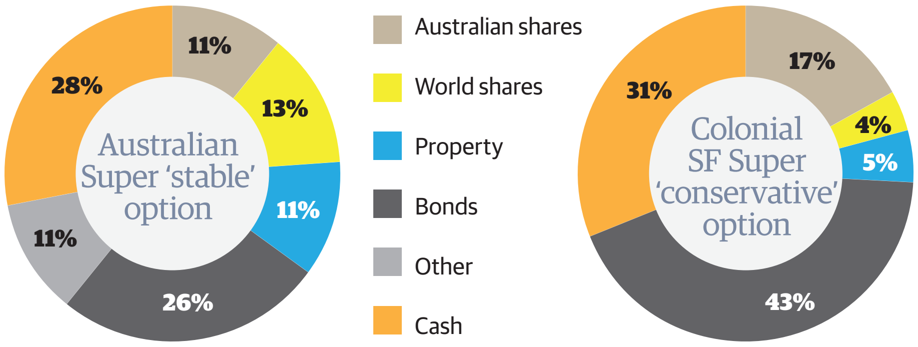

Superannuation is meant to replace our work income at retirement and should last more than 40 years.

So how much time do we spend understanding our super savings compared with the time and effort we give to maintaining our jobs?

For disengaged super fund members, the investment portfolio generally becomes a trustee-selected default balanced option.

A balanced option is a diversified, blended pre-mix portfolio.

Unfortunately, this option takes a one size fits all type approach which may not be in the best interests of individual retirement needs.

A balanced portfolio generally consists of five to eight different asset classes that can be grouped into defensive (cash/bond) and growth (shares/property) assets.

Different super funds (platforms) generally have different combinations of asset allocation in their balanced portfolio ranging from 25 per cent to 50 per cent in defensive and 75 per cent to 50 per cent in growth.

Therefore, a balanced portfolio with higher allocation in growth assets tends to perform better when financial markets are in a bull run and other way around in a bear market.

So, what could go wrong with a "set and forget" default balanced portfolio?

Let's assume a balanced portfolio with 30 per cent defensive and 70 per cent growth assets invested in managed funds.

Currently the Reserve Bank of Australia's cash rate is 2.5 per cent.

Therefore, in the current market conditions the 30 per cent defensive part of the portfolio is likely to produce less or equal to inflation (2.5 to 3 per cent) taking tax and fees into account.

The same portfolio with 70 per cent growth assets, depending on the market conditions, might lose half of the portfolio value, as was the case during the global financial crisis.

The pre-mix balanced portfolios in a super fund generally are not designed to absorb shocks in market conditions. Super fund trustees give the fund managers the job to invest members' pooled funds in their blended portfolios, leaving members exposed to bumpy market conditions.

Therefore, the onus goes to the individuals to take some control to grow and protect their retirement nest eggs.

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THE SUPERANNUATION INDUSTRY: A SNAPSHOT

Types of entities	MySuper or simple super	Retail or industry super	Wrap or wholesale super	Self-managed super fund	Defined-benefit fund
Legal structure	All super funds are trusts with corporate or individual trustees				Public sector or large corporation funds.
Regulator	APRA	APRA	APRA	ATO	
Investment options	Lifecycle or single diversified	Limited (a few to a few hundred)	Limited (a few hundred)	Unlimited	
Fees & costs	Low (e.g. admin/ member fees)	Medium to high (e.g. admin/member, trustee or accounting, asset protections etc.)	Medium (e.g. platform fee)	High (e.g. admin, audit, accounting, actuary etc.)	
Fund managers' fee (MER)	Low – blended premix or multimanager funds High – single manager funds The fees are generally taken out of the total pooled fund, may not appear on regular statements				
Comments	These are Government prescribed new, simple & cost effective super solutions for disengaged members	Generally less engaged less sophisticated members may fall into this category with or without financial advice	These are generally suitable for sophisticated members with or without financial advice	Generally suitable for investment savvy members or those who have specific estate planning needs	Benefits are payable on retirement or death based on an actuarial advice. Therefore, these are not investment linked member accounts