

What I Wish I'd Known ... Financial Advice for my Younger Self

#3 A Most Important Financial Planning Tool

by [Steve Nicholas](#), Financial Adviser

I wonder how many young people know that superannuation is one of the most important financial planning tools we have to help us preserve and make the most of our wealth. I **wish I'd known** this earlier and made more informed decisions about my super when I was younger.

In particular, I should have looked at my super's investment strategy; it could have made a big difference to my savings.

Super can be a complex issue and requires expert financial guidance if you want to make the most of it, particularly if you are relatively new to the workforce. It is important to realise that your choice of super investment strategy when you're young can help to grow your savings.

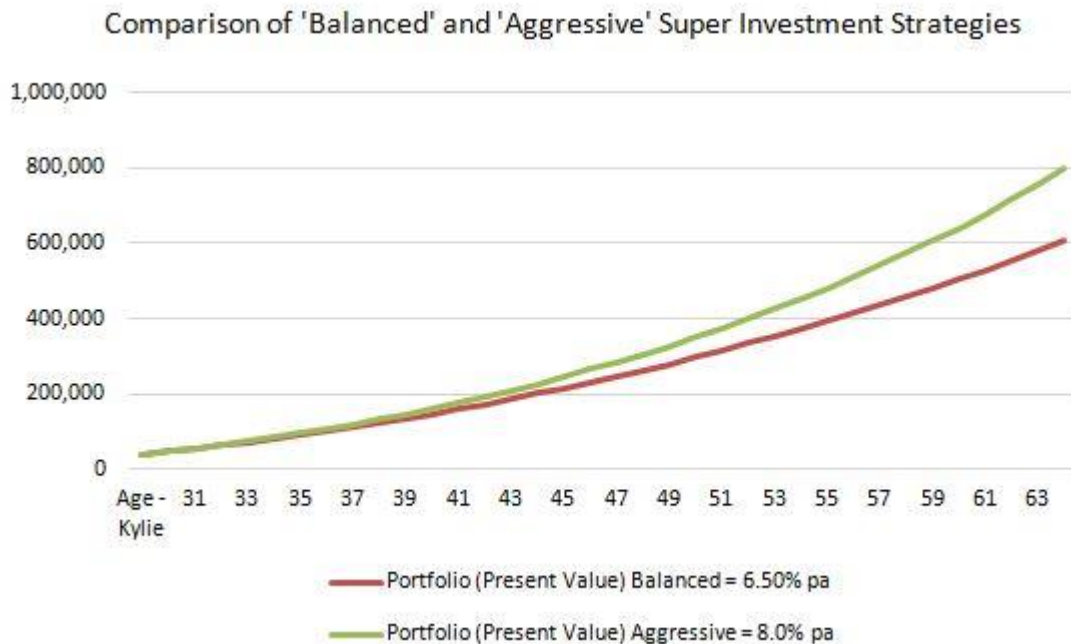
Many young people are given 'default' super choices by their first employer which may not necessarily be the most appropriate option for them. Typically, default funds are invested in a 'balanced' investment option which can have around 30% invested in defensive fixed interest and cash type investments. This default investment option for your super may be more conservative than it perhaps should be.

One of the benefits of having a super strategy that is appropriate for your circumstances is that you can earn a better return with higher growth, making your money work harder for you.

For example, a more 'aggressive', higher growth investment option could achieve on average a 1 to 2% per annum higher return than a balanced fund. Compounded over a long period of time, this extra return will significantly increase the amount of super you accumulate, in some instances over \$100,000. As a result, you will have more options when it comes to enjoying the lifestyle of your choice in retirement.

If you don't have an appropriate strategy in place early, you may end up foregoing wealth and reducing your opportunities later in life.

This chart shows the difference between 'balanced' and 'aggressive' super investment options over a 35-year period.



Assumptions:

- Kylie's salary is \$80,000 at age 30 with legislated super guarantee contributions received while she works through to age 65. Her salary increases at 3.0% per annum and inflation is 2.50% per annum.
- Kylie has an initial super balance of \$40,000.
- Figures are net of fees; returns are pre-tax; taxation is not considered in the projection.

Situation 1: 'Balanced' super portfolio (the green line)

At age 30, Kylie's super balance is \$40,000 with an investment return of 8.00% per annum. At age 65, her super balance is \$797,400 (in today's dollars).

Situation 2: 'Aggressive' super portfolio (the red line)

At age 30, Kylie's super balance is \$40,000 with an investment return of 6.50% per annum. At age 65, Kylie's super balance is \$606,280 (in today's dollars).

Disclaimer: *The above projection is for comparison purposes only and is not a guarantee. The projection is not intended to be your sole source of information when making a financial decision. You should consider whether you should seek advice from a licensed financial adviser before making any decision about salary sacrifice.*

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Get financial advice early

Financially speaking, the sooner you take financial advice, the more you will benefit – both now and later on – from your income. Many young professionals are given default super schemes which may not align with their circumstances, interests and goals. Seeking the right advice early is key, but do your homework and choose a professional who feels like a good fit.

Here are some tips on how to choose a firm to advise you:

- Ask for recommendations from your peers.
- Check out a firm's and advisers' credentials and read their client testimonials.
- Enquire about their specialisations.
- Contact them by phone or email and start asking questions.

If you (or a young person in your life) would like to talk to a financial planner at Stratus Financial Group about cash flow, insurance, super or any other financial matter, please contact us. It will be our pleasure to help. Phone (07) 3007 2007 or email info@stratusfinancialgroup.com.au

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