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The Superannuation Lifecycle

Much of the focus of making super simpler is based on how to get money into or out of the system in the most tax-effective way. But from an investment perspective it is important to remember that superannuation is not an asset class like shares or cash or property. Rather it is an investment vehicle through which you can invest into asset classes with varying amounts of flexibility.

So, once your contributions have made it into the fund, how should they be invested? The answer will depend on your stage in life and your attitude to investment risk.

If you are under 40
If you are aged 40 or younger you have 20 or 30 years until you can touch your superannuation. With this long timeframe ideally you should have a high proportion of your super invested in shares and property. These growth assets can be expected to produce the highest returns although there will be some ups and downs along the way.

Depending on your attitude to investing you might not limit yourself to blue-chip shares but put some money into smaller companies or emerging markets. It would still be wise to have a diversified portfolio and not commit all your money to just a few large assets.

If you are 50
If you are planning to retire and take a lump sum at age 55, you want to minimise the risk that your assets will lose value just before you access the money. Investing in more conservative investments such as fixed interest and cash could be appropriate.
On the other hand, if you plan to keep working and take a pension at retirement, you are still a long-term investor so you could look at including growth assets.

If you plan to take a pension
Rather than taking lump sums, many retirees convert their super into an allocated pension. If this is your plan, the temptation is to switch super into more conservative investments like fixed interest and cash. You don't want to take the risk that your nest egg will fall in value right when you need it most.

This logic may not be quite right. Certainly you need a proportion of your money in cash because the fund will be paying you an income. But if you have only just retired you may have 20 or more years of retirement ahead of you. It would make sense to invest at least some of your money as if you were a 40-year-old. Higher returns will make your allocated pension last longer.

One of our key roles is to work out a suitable investment strategy for you based on the above factors and your personal views and objectives. The aim is to create a portfolio that not only best suits your situation, but also one that allows you to sleep soundly at night.