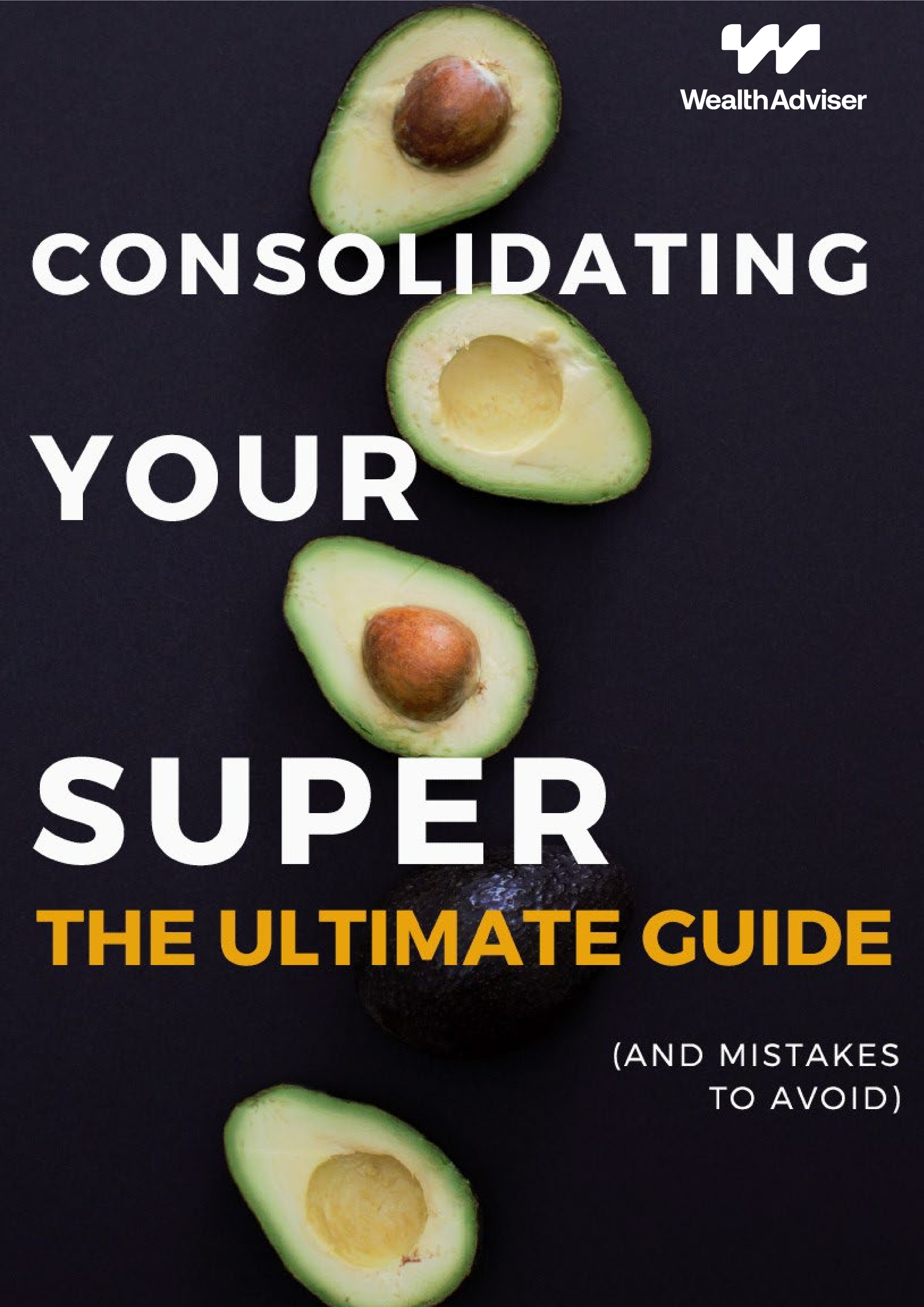

WealthAdviser

CONSOLIDATING YOUR SUPER

THE ULTIMATE GUIDE

(AND MISTAKES TO AVOID)

Before you get started

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- Wealth Today (AFSL 340289)
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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library
This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage
We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step
Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Contents

Introduction

The purpose of this eBook is to provide information on consolidating super. If you've changed jobs over the years, it's likely that you'll have more than one superannuation account. About 35% of Australians do, according to recent figures released by the Australian Taxation Office (ATO).[1] You might even have several super accounts, with each one set up by a different employer.

In this eBook, we'll explain the benefits of consolidating your super if you have multiple accounts, as well as highlight some pitfalls to avoid. There can be some valid reasons for keeping more than one super fund.

We'll also provide you with some advice on how you can prevent small super accounts from being eaten up by fees (such as those of your kids if they start working casually or part-time while still studying).

As with any financial decision, we recommend you seek independent advice. This advice will help to determine if consolidating your super is appropriate for your financial circumstances.

1. https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Multiple-super-accounts-data/

What are the Potential Benefits of Consolidating my Super?

There are several potential benefits for consolidating your super:

- reducing the amount of fees that you pay
- maximising the power of compound interest
- reducing paperwork and making it easier to keep track of your funds.

We'll now look at each of these benefits in more detail.

Reduced fees

You'll be charged fees for every super account that you have, so multiple accounts mean multiple fees. Consolidating your super accounts can help grow your nest egg by reducing your overall fees to a single annual charge.

Let's consider an example of how even seemingly small fees can significantly affect your overall return on your super over the long term. Did you know that the average person pays $532 in annual fees with each super account they have? These fees typically include administration costs and insurance cover (such as life, total and permanent disablement or income protection).

And did you also know that the average Australian has three super accounts?[2]

Let's imagine that you are that average Australian.

You'll be paying three times the fees (a total of $1,596 a year at average rates, or an extra $1,064 a year compared to having just one consolidated account). Over a working life of thirty years, that would add up to an extra $31,920 in fees!

Maximising the power of compound interest

Paying reduced fees after consolidating your super means you'll have more funds in your account. Using the same example above, you would have an extra $1,064 in your super account each year, even before considering what those additional funds would earn you annually in interest over the long term.

Most people have plenty of time to get compound interest to work its magic on their super, provided they start early enough. Depending on your date of birth, you won't be able to access your super until you retire and/or reach the following preservation ages[3]:

Date of birth	Preservation age
Before 1 July, 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June, 1964	60

The earlier you can consolidate more of your funds, into one super account, the better.

Reduced paperwork and easier tracking of your funds

If you have multiple super accounts, that's multiple providers that you need to inform about routine things like changes to your address. That's important so that they don't lose touch with you. Super funds are legally obliged to send you annual statements.

It's also harder to work out your overall super situation when you have multiple accounts. Your statements will invariably arrive at different times. You'll also have to piece together what level of insurance cover you have among all your different superannuation funds.

Recent research has found that the average Australian superannuation account balance is $50,300. But if all Australian super account holders were to consolidate their accounts, the average balance would jump to $90,000.[4] Wouldn't you feel better knowing you had a single, higher super account balance, rather than having to piece it all together?

Consolidating your super can feel like doing a financial stocktake, helping you to organise your affairs. It can also provide you with the accurate information you need to plan your retirement investment strategy more effectively.

2. https://www.mapmyplan.com.au/resources/article/consolidate_your_super_because_it_s_your_future_318
3. https://www.ato.gov.au/super/self-managed-super-funds/paying-benefits/preservation-of-super/
4. http://moneymag.com.au/should-you-consolidate-your-super/

What are the Reasons to Keep More than One Super Fund?

While there are potential benefits to consolidating your super, there can also be several valid reasons why you might be better off retaining more than one super fund, including:

- high exit fees
- losing insurance benefits
- the transfer of your super funds may be restricted
- diversifying your investment portfolio.

We'll now look at each of these reasons in more detail.

High exit fees

While reducing your annual fees is a benefit of consolidating your super accounts, you might be charged a high exit fee to transfer your funds. Depending on the amount of those charges and the time you have left until retirement, those exit fees might negate the benefit of your annual fee savings of consolidating.

Loss of insurance benefits

Many super accounts provide life, health or income protection insurance cover automatically. Or your circumstances may have changed over time and you might not be able to transfer the insurance cover you need when you're consolidating your super accounts.

For example, if you have health issues, your proposed consolidated fund might not be prepared to provide you with the cover you already have with another fund.

It's important to be very careful that you don't lose the existing insurance cover that you need when you are consolidating your super accounts.

You might also be able to access cheaper insurance in some super funds than others, and not be prepared to pay more for it in a consolidated fund that has higher premiums.

The transfer of your super funds is restricted

With certain types of super funds (such as some defined benefit funds), you can't transfer the money out of your account even if you want to consolidate your funds. As its name suggests, a defined benefit fund is one that pays you a pre-set final amount.

Only about 10% of Australians are members of defined benefit funds, but if you are, you may not be able to consolidate those funds into another super account.

You have less risk if one of your super accounts is a defined benefit fund.

If you are risk-averse, it's likely to be in your best interest to keep any defined benefit fund that you have going, rather than consolidate its funds into another accumulation style of super fund.

In a defined benefit fund, the provider takes on all the risk. You are being guaranteed a pre-set benefit based on you and your employer's contributions, as well as your final salary at retirement and your length of service with your employer.

The defined benefit will usually be either a lump sum multiple of your final salary, or a regular monthly payment of a percentage of your final salary until you die.

To illustrate how a defined benefit super fund is lower risk, consider workers that had planned to retire soon after the Global Financial Crisis hit. Those that were in a defined benefit fund would not have had their plans or the value of their retirement benefit affected at all.

However, those with an accumulation style of fund (where the value of their retirement savings fluctuates with market conditions) saw their super balances reduce significantly. The GFC forced many of these people to significantly delay their retirement plans.

Diversifying your investment portfolio

Having more than one super fund can allow you to diversify your investment portfolio and minimise your risk. You can potentially spread your funds over a wider variety of investment options.

How Do I Consolidate my Super?

Consolidating your super is relatively easy. We recommend you take the following steps.

Step 1 – Use myGov to locate all your existing super accounts

You might be like many Australians and have lost track of how many super accounts you have. Luckily, the Australian Taxation Office keeps a record of your super accounts and you can access this information easily.

It's worth checking! The most recent figures indicate that Australians currently have more than 6.3 million lost or ATO-held accounts worth over $17.5 billion![5]

First, you need to set up a myGov account if you don't already have one. It's quick and easy to do online at https://my.gov.au. All you need is a valid email address.

Once you have set your myGov account up (or if you already have one), link it to the ATO so you can access their services.

The ATO has a 'Super' tab that shows all the super accounts that are linked to your tax file number. In some circumstances, the ATO may be holding super funds on your behalf (if you are a foreign national who worked in Australia and have since departed with your super fund subsequently being unable to contact you).

Step 2 – Choose one fund

Evaluate your existing super funds to choose the right one to consolidate your funds. There are several important factors you need to consider as part of this evaluation, including:

- each fund's investment performance over the long term.
- the investment options and associated risk profiles offered by each fund.
- the fees they each charge. Be aware that many funds base their fees on a potential of your balance. So just because one fund's fees seem lower than those of another, that may be because your balance with them is currently lower. If you transfer your funds to the supposedly lower fee fund, there may not necessarily be a saving. It's important to determine how each fund calculates its fees, so you can compare 'apples with apples' and make an informed decision.
- the potential exit fees of each fund.
- the insurance cover each fund is prepared to provide as well as the cost (again, it's important to seek professional advice and make sure you don't lose any insurance cover that you need when you are consolidating your super accounts, otherwise you will be worse off if an unfortunate event occurs).
- the services you do and don't need. You might be paying for some services you don't need or use with some super fund providers, and alternatively others may offer services you do want. For example, some super funds provide their members with a range of discounts with their affiliated service providers (such as travel and medical services).
- whether your current employer can make contributions into your intended consolidated fund (or if they can provide additional benefits such as rebating your insurance premiums). The contributions to some super funds are restricted and can only be made by the employers that created them.

You can also evaluate potential new super funds as part of this process, using the same criteria outlined above. If this evaluation reveals that a new fund is your best option, you will need to open a new super account with them.

Step 3 – Tell your employer

If you have chosen a different superannuation fund to the one your current employer makes payments to on your behalf, let them know the new fund's details. That will enable them to redirect your future super payments. They will also need to know your identification details with the fund (e.g. your account number) to avoid any payment issues.

These payments would include compulsory superannuation guarantee contributions being made on your behalf by your employer (currently 9.5% of your earnings), plus any voluntary contributions you may have instructed them to make (e.g. any salary sacrifice into super arrangements you might have in place to tax-effectively boost your retirement savings).

5. https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Multiple-super-accounts-data/

Step 4 – Rollover your super to your consolidated fund.

A rollover is the superannuation term for transferring your funds from one super account to another. There are two potential ways of rolling over your super funds:

a) via the myGov website. This is the easiest way to do it. Simply choose the fund you want to transfer your super out of (the 'transferring fund') and indicate where you want to transfer the funds to (the 'receiving fund'). Once you have confirmed your selection, the funds should move between accounts relatively quickly.
1. However, there may be a slight delay in finalising the value of your transferring and receiving funds while the underlying investment assets in each of your super accounts are sold and purchased.

b) contacting your consolidated super fund. Most will arrange the transfer of funds on your behalf once you have filled out the appropriate paperwork enabling them to do so. Alternatively, you may need to arrange the transfer from your other funds yourself by filling out the relevant rollover paperwork with each fund.
2. Either way, be aware that again there may be a slight delay in finalising the value of your transferring and receiving funds while the underlying assets in your super accounts are bought and sold.

N.B. No matter what rollover option you want to use, make sure you have fully evaluated your decision (see Step 2 above). Ideally, you should have discussed your specific circumstances with a qualified financial adviser.

Five Mistakes to Avoid

1. **Losing insurance coverage that you need** during the consolidation. Seek professional advice to ensure that you don't.
2. **Rolling over a defined benefit fund without careful evaluation and professional advice.** Be very careful about taking your super funds out of a defined benefit fund to consolidate them into an accumulation fund. Your risk profile increases automatically if you do, so very careful cost/benefit analysis is needed.
3. **Using the short-term investment performance of a super fund as guide to future returns.** Past returns are never a guarantee of future returns, but its best to evaluate a fund's long-term investment risk profile and comparative performance (e.g. for the last five years or more, and to look for consistently good results).
4. **Not doing your research or seeking professional advice.** Many super funds will contact their members and offer to consolidate their other super account balances on their behalf for free. While the convenience and free nature of this offer may seem attractive, you need to evaluate whether the fund that is offering that service is your best option before making any decision. Super funds aggressively complete for funds, that is how they earn their money. So, they are not necessarily doing you a free favour by offering to consolidate your funds on your behalf.

Setting and forgetting. Some people think that super is such a long-term investment that they couldn't be bothered even thinking about it. Consolidating your super mightn't necessarily be the best strategy for you, but it's certainly worth informed consideration. Your retirement can potentially be positively or negatively impacted by a consolidation decision.

What’s a Good Low-Cost Option for Small Super Balances?

In July 2013, the federal government introduced MySuper. This is a default accumulation superannuation fund for compulsory employer contributions for workers who don’t choose their own superannuation funds.

At the same time, the federal government also abolished the ‘member protection rule’ that had existed to protect superannuation balances of less than $1,000 from being eaten up by fees. Many casual workers like students supporting themselves with casual or part-time work are potentially vulnerable to low balance super fund fee erosion.

However, MySuper is intended to solve this problem by providing a streamlined fund that offers:

- lower and restricted fees
- simpler features so members don’t pay for additional services they don’t need
- two simple fund investment options, rather than several.

Conclusion

This eBook has explained the key things you need to consider when deciding whether to consolidate your super. It outlined the potential benefits, as well as some valid reasons for maintaining separate accounts. It also highlighted mistakes you need to avoid, and what you can do to protect small super balances being eaten up by fees.

In addition to the information contained in this eBook, consultation with an experienced financial adviser is recommended to determine the right course of action for your super in your specific financial circumstances.

It is our hope that the information presented in this eBook has set you thinking about planning your financial future. We urge you to continue your explorations by making use of some of the other resources and eBooks from the Wealth Adviser stable. We also stand ready to serve you with holistic and professional advice, so please do not hesitate to contact us if we can be of further assistance.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with one of our experts.

We look forward to meeting you soon.

Appointment booking request form

About the Adviser

Our services

Contact details

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day

Date

Time am/pm

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email

Your Details

Title

First name

Last name

Mobile