Three things to consider when switching your super

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The superannuation guarantee is a percentage of your income put aside by your employer over your working life to help you fund your retirement.

It's easy to forget sometimes that superannuation counts as investing and is in fact one of the most important long-term investments Australians will ever make, particularly as super is now the second largest component of household wealth after property assets and still the foundation of retirement savings.

Understanding how your super works and making sure you are getting the most out of your fund is therefore essential to growing your wealth and ensuring you can live the retirement lifestyle you envision.

Choosing a super fund and investment option may seem daunting, or simply just not on your radar as retirement may seem too far in the future to think about now. The danger with this however is that if you don't select a super fund for your employer to pay contributions into, you could end up defaulting into a fund that is underperforming or end up with several funds on which you'll have to pay individual fees. This will impact your superannuation balance in the long run.

1. What kind of investor are you?

Consider first what kind of approach you'd like to take toward your super as this can then help inform which investment offer you select. For example, are you more of a hands-off investor who prefers to leave investment decisions like asset allocation and rebalancing to your super fund's investment experts? Or are you more hands-on and would prefer to mix and match investment options to build a super portfolio that's unique to you?

For those who prefer a hands-off approach, most super funds offer a MySuper default option that usually invests in a single diversified fund or a lifecycle offer. These default options are designed to be simpler, balanced, more cost-effective and less maintenance.

Vanguard Super's MySuper option for example is called Lifecycle and is designed to automatically adjust your investment mix according to your age, allowing you to set and forget.

Vanguard Super also offers a choice menu for more confident investors who would like to select from a range of single sector and diversified investment options to build their own portfolio according to their goals and risk tolerance.

2. Compare your options

As with all investing, doing your own research or consulting a licensed financial adviser is important. When selecting or switching super funds, there's a range of factors you could consider including investment options, investment performance, insurance, user experience, and importantly, fees.

There are a few tools online that can help you easily compare super funds and find one that best suits your circumstances. The MoneySmart website created by the Australian Securities and Investments Commission is a great place to start, as well as the Australian Tax Office's YourSuper comparison tool.

3. Understand your fees

The long-term impact of fees on superannuation balances can be significant if left unchecked. New research from Vanguard Australia revealed that 1 in 2 Australians don't know what they pay in annual fees.

According to analysis conducted by the Productivity Commission, just a 0.5% increase in fees could cost a typical full-time worker around $100,000 by the time they retire.

That's why it's critical to not only understand your fees but also make sure your fund is low cost.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/three-things-to-consider-when-switching-your-super

https://www.vanguard.com.au/super/

https://moneysmart.gov.au/

https://www.ato.gov.au/calculators-and-tools/super-yoursuper-comparison-tool