Factsheet

ING DIRECT
Spend your life well

'Active' versus 'passive'

How are your super savings invested?

The investment approach used by your super fund could make a big difference to the fees you pay – without any guarantee of higher returns.

Our super savings are typically invested using one of two approaches – 'active' versus 'passive' investing.

Active investing
An active strategy means your super savings are invested in assets which the fund manager believes have the potential to earn higher returns than the overall market. It is an approach that relies heavily on the research, analysis and skill of the fund manager.

Many people assume that active investing leads to returns above the overall market. However investment markets are shaped by a tremendous range of factors – and no one – not the experts, can consistently pick the winning investments all the time. The result is that actively managed investments will sometimes, though not always, outperform the market. At other times actively managed super can significantly underperform the broader market.

Passive investing
Passive investing aims to mirror (rather than outperform) the returns on a particular investment class as measured by a given benchmark or index – like the S&P ASX 200 for Australian shares.

Instead of frequently turning over investments, passive investing involves holding a representative sample of assets as they appear in the index. By following this strategy the returns on passively managed super savings won't stray too far from the overall market.

Comparing the costs
Active investing is often a more costly approach than passive investing. It calls for increased research and analysis plus higher turnover of underlying investments, which results in increased transaction costs like brokerage.

The higher costs of active investing are passed onto fund members in the form of higher fees. Some actively managed super funds also charge additional performance fees, of up to 0.59%, if the returns on your super reach a certain level.

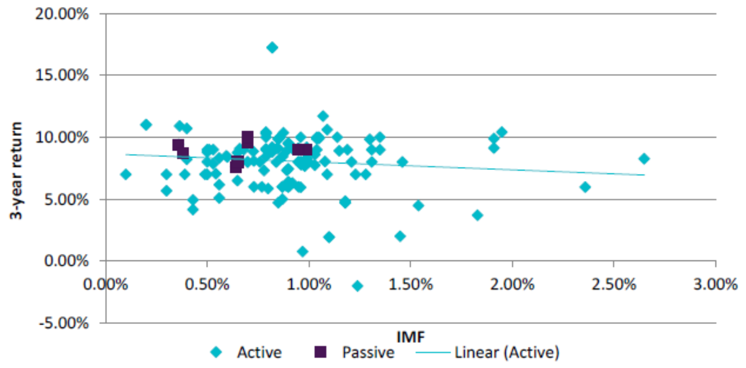
Importantly, no matter how well, or how poorly, your super investments perform, the fees will still be deducted from your super balance.

Are higher fees matched by superior returns?
Research by ING DIRECT confirms that paying higher fees for actively managed super is no guarantee of earning higher returns.

This is shown in the graph below where we can see there is a far broader range of returns for actively managed funds compared to passively managed options. In fact, many of the actively managed super funds charging high fees have underperformed the passively managed super options with lower fees.

Graph 1 Multi-sector investment options – Growth exposure between 50% and 80%

Based on the 3 year annualised return to 30 June 2013



Did you know?

In the ten years between 2005 and 2014, super fees have dropped by about 20% to an average of 1.15%. One of the factors behind this is the increased use of passive investing by super funds.

What does it mean for you?

Over the course of a working life, super fees will have a significant impact on your final retirement nest egg. Super fees can range from 0% to 2.33% - and as we have seen, paying more in fees does not necessarily mean earning higher return on your super.

It only takes a minute to check the super fees you're paying. Sticking with a high fee super option can mean having up to $192,000 less in super by the time you retire[1]. Switching to a zero or low fee super option is a one way that may mean more money to live on in retirement.

[1] By paying 0% in super fees, a 30-year old male earning $75,000 with $24,000 in super today, could retire with super savings of $511,000. That final balance would fall to $319,000 with a fund charging super fees of 2.33% – $192,000 less than the 0% fee option. Assumes real (after-inflation) fund returns of 3.46% annually – the return modelled on a fund investing in 50% cash, and 50% indexed local and international shares, only contributions are superannuation guarantee and no insurance cover. Super fees include investment and administration fees but not buy/sell spreads or indirect costs.