

National
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NICRI's Guide to Super Choice

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What is super choice?

Superannuation choice enables employees to nominate the superannuation fund into which their employer/s will make their employer superannuation contributions. To date, it has generally been possible to only nominate the investment options within the superannuation fund to which the contributions are made. Choice of fund takes this option the extra step of choosing the actual fund to which the contributions are made.

In making a choice of fund and, in fact, investment options within the fund it is vital to consider your personal situation and intentions and be aware that investments within the superannuation environment should be viewed as long term. As a consequence it is considered prudent that people will hold their chosen fund and strategy for a reasonable period of time and not change from one fund to another based purely on previous year's performance.

Not everybody will be eligible to have choice of superannuation fund in respect of their employer contributions and, in some cases, their own *compulsory contributions*. Contributions in excess of any compulsory contributions can, of course, be made to any superannuation fund.

What it means to you

By being able to choose the fund to which your superannuation contributions are made you can select providers, products and philosophies that match your own. For those with an interest in investing this can include Self Managed Superannuation Funds (SMSF), while for those wanting *capital guarantees* Retirement Savings Accounts (RSA) are available.

It also enables people to balance their superannuation investments to take into account their personal situation and make their decisions to suit their own time frames and objectives.

For people with multiple employers it would be possible to consolidate their superannuation with one product provider, if they wished, which should minimise not only the cost of managing their retirement benefit, but also the amount of superannuation being lost. It also provides the opportunity for people to take responsibility for involvement in the choice of management style/mix of *asset classes* of their superannuation benefit.

While these are all very positive advantages the negatives must be remembered. Consumers can become caught up with changing product providers due to the natural desire to achieve higher returns. Not everyone is going to succeed in timing movements in the markets every time and diversification and understanding the investment strategy are important. Seeking professional advice from a licensed financial planner can help determine the most appropriate choice of fund if in doubt.

Who is eligible?

Unless your superannuation benefits are paid under specific awards that dictate the fund to which your superannuation fund the benefit must be paid, you are eligible to choose the fund to which the contribution is paid. In the cases where the payment has to be made to a stipulated superannuation fund the stipulation complies with the Choice of Fund legislation. Confirmation of this can be obtained by contacting your human resources department or relevant union or association.

Among those who are not eligible for choice of superannuation fund are members of the Commonwealth Superannuation Scheme, Public Sector Superannuation Scheme, contributions under the Superannuation (Productivity Benefit) Act 1988, Australian Workplace Agreements (AWAs) or certified agreements, certain Victorian agreements, State awards, or prescribed legislation.

What is required of your employer?

An employer must give employees a standard choice form by 29 July 2005 for all employees as at 1 July 2005. For new employees after that date the standard choice form must be provided within 28 days of the employee first commencing employment.

The choice form should give the employee details of the fund to which the contributions would be made if the employee opts not to make a choice. It should also state if the employer makes additional contributions at a level greater than the 9% required by law and if they will continue to do so if the employee chooses another fund.

It should, if the member is in a *defined benefit* scheme, provide information about issues the member should consider before opting out of the scheme. This could include the basis on which the transfer value is calculated, whether it is possible to transfer back into the fund etc.

Other occasions when a standard choice form must be provided are:

- Within 28 days of the employer being given a written request to do so, unless the employee has been given one within the previous 12 months;
- Within 28 days of the employer becoming aware that a chosen fund has ceased to be a chosen fund because the employer has been unable to contribute to the fund or the fund ceasing to be eligible choice funds;
- Within 28 days of changing the fund to which the employer is making contributions on behalf of the employee where the employee had opted not to choose a fund.

If the employer is provided with a choice request prior to providing the standard choice form they are no longer obligated to provide the standard choice form or to offer the insurance obligations required.

Insurance in respect of death

Where an employee does not choose a superannuation fund the employer must contribute to a superannuation fund which meets the requirement to offer a minimum level of death cover, based on the age of the member, or that offers cover at a premium of at least \$0.50 per week.

Age range	Minimum level of life insurance cover
35 or less	\$50,000
36 to 35	\$35,000
46 to 50	\$25,000
51 to 55	\$15,000
56 and above	Nil

There are some circumstances where the employer is not obliged to make contributions to a fund that offers the required level of life cover.

Some superannuation funds offer 'low cost' death and disability cover. In the case of disability cover the payment is often *salary/income continuance*. This income is usually fully taxable and may reduce if government disability support is payable. *Waiting periods* may apply and the payment made only for a specified term.

What is required of you?

Contributions must be made to eligible choice funds. For the fund to be eligible it must be:

- A *complying superannuation* fund or a complying superannuation scheme at the time;
- A RSA;

You must provide your employer with:

- The account name and membership number in the fund;
- The full name of the fund and the fund's Australian Business Number (ABN)
- A written statement from the trustee of the fund stating the fund is a complying superannuation fund. At this stage it is unclear whether this information will be provided in the *Product Disclosure Statement (PDS)* or if the industry will develop some other means of providing this information for your employer. For a SMSF a letter from the Australian Taxation Office (ATO) stating the fund is complying is required;
- Information concerning the method of payment of the contributions and details necessary to make the payment;
- The number or identifier that relates to the product chosen (Referred to as SPIN – Superannuation Product Identification Number) if the fund uses a number or other identifier to refer to its superannuation products.

Superannuation fund choices

There are two areas of choice to consider. The first is what superannuation fund will I use and the second is what investment options will I choose within the fund, if applicable.

The main types of funds available are:

- Employer fund;
- Retail fund;
- Industry fund;
- RSA; and
- SMSF.

The **employer fund** offered may be one that is managed by the employer, a retail fund or an industry fund. Membership of an employer fund is usually only possible because of the employer-employee relationship and would not be open to the general public. On termination of employment it may be necessary to transfer the member benefit to another fund.

Retail funds are those funds offered by the various financial institutions and product providers. These include masterfunds/trusts. Commonly these funds would be recommended by financial planners and anyone is eligible to join, provided they satisfy the rules for making contributions to superannuation. Access to these funds may also be possible through Discount Brokers. They offer a broad range of investment options to suit most investment styles.

Industry funds were initially established for the benefit of employees covered by a particular agreement or industry award. Basic life insurance cover is often compulsory and fees are a flat dollar amount. Extra insurance cover may be optional. Many Industry Funds are now accessible to the general public. Like retail funds, they offer several investment options but in many instances only limited advice services are provided.

Retirement Savings Accounts (RSA) are accumulation funds offered by banks, building societies, credit unions and life insurance companies to provide superannuation without a trust structure.

RSAs are required to be capital guaranteed and fully portable. The account is owned and controlled by the account holder and is subject to the same standards applying to other superannuation products, including preservation, contribution eligibility and general disclosure rules. These products are not promoted compared with other superannuation options offered by the same providers. Often staff are not aware of the existence of the products and, in some instances, there are products with similar names that are not superannuation products.

RSAs are prudentially supervised within the existing regulatory framework.

Self Managed Superannuation Funds (SMSF) or Do It Yourself (DIY) funds are becoming more popular as pre-retirees and retirees search for different options for their retirement planning.

The ATO regulates SMSFs and provides some information on setting up and running of these funds. It also suggests consulting a professional adviser.

To qualify for concessional taxation a superannuation fund must be a complying fund and this means that the trustees must have elected to be a regulated fund in terms of the Superannuation Industry (Supervision) Act (SISA).

The objective of a superannuation fund is to accumulate and grow assets on behalf of the members of the fund and provide them with an income benefit in retirement. Accordingly the trustees, and therefore the members, must not receive any benefit or gain from the fund prior to retirement. This is commonly known as the 'Sole purpose test'.

The investment options available within the various funds are discussed on page 8.

What to look for when making your choice

Comparing the past performance of the fund to which your superannuation benefits are currently being paid with other funds that you may be considering is prudent. In doing this it must be remembered that past performance does not guarantee performance in the future. It is also important to ensure that the data being looked at relates to the same period.

Information about performance over the past 1, 3 and 5 years of many of the retail funds, their size and sometimes fees can be obtained from news papers and magazines. Information about employer funds and Industry funds is usually not as readily available. Inquiries would usually need to be made of the particular funds and clarification be made as to the period being reported on.

Financial advice

There are a number of information sources available to consumers which may assist with decisions on super choice. These resources are offered by government, industry and consumer agencies and can be accessed via the internet, through publications or through call centres.

In some cases it may be prudent to seek financial advice. The cost may be a flat dollar fee, a percentage of the investment funds or a combination of both.

Advisers are required to disclose any fees and commissions applicable, their licensing arrangements as well as any interest they have in the fund. It is required by law that advisers are able to justify any recommendations by showing that the fund is most appropriate to your needs and objectives. They should check if there would be any detrimental effects by switching, such as exit fees charged and possible loss of insurance.

For more information on financial planning refer to the NICRI 'Guide to the Financial Planning Process'.

Fees

All investments incur fees of some sort. Fees are deducted by the investment manager or the institution you invest with either from the balance of your account or from the earnings on the investment. These fees may be in addition to the fees you pay a planner for investment advice.

The fees may be charged by reducing the amount invested or a withdrawal from your account balance, by reducing the number of units you hold, or may be included in the unit price calculation. Fees are charged to cover commissions paid to financial planners, management and the day to day operating costs of the fund.

The fees should be stated and explained in the PDS. They may not all be listed in the one section so you should check the entire document.

Different investment options require different levels of management so fee structures may vary. Be careful to only compare fees on similar types of investments. As a general rule the more management that is involved with the investment, the higher the fees.

You should consider how much you pay in fees but also look at your actual return net of the fees.

Entry fees

Entry fees may be charged on the both the initial and subsequent amounts contributed to your chosen superannuation fund. If applicable it would be charged as a percentage of the amount contributed. Entry fees vary from 0 - 6%.

For example, if you invest \$10 000 in a fund with a 3% entry fee you will pay \$300. This fee is deducted from the amount invested so you will only have \$9700 invested.

Ongoing management fees

The *Trustees* and fund managers, known as the single responsible entity, charge a fee for their services. This fee is usually called a management fee. It is usually a percentage of the total value of the fund and is not related to the performance of the entity or the return you receive.

The fee varies according to the type of fund, the policy of the Trustee and generally varies between 0.5% and 2.5% of the asset value of the fund.

The ongoing management fee of a fund that offers a Nil Entry Fee (NEF) option is often higher than that with the entry fee.

Usually the amount you pay cannot be determined as it does not appear on your statement. The fee is included in the unit price calculation and investment returns are generally quoted after the fee has been deducted.

Account fees

Most superannuation funds have annual account keeping fees. They are a nominated dollar amount e.g. \$40 per annum and may be indexed. These fees are deducted from your balance and appear on your statement.

Exit fees

Some funds charge exit fees usually as a percentage of the amount withdrawn. The fee generally varies from between 0 - 5%. This may apply on all withdrawals or to withdrawals made during a specified number of years.

Switching fees

Some funds offer you a choice of investment options, e.g. capital secure, balanced, etc. You can switch between options, but the manager may charge a switching fee. This may be a set dollar amount per transaction or a percentage of the amount switched.

Management Expense Ratio (MER)

Managed funds incur ongoing administration costs which are paid out of the fund. The management expense ratio (MER) is an indication of the percentage of the average balance of the investment fund needed to cover fees and charges (including the annual management fees). The MER aims to show what extra costs are incurred in using a managed fund structure instead of direct investments. This ratio can be used to compare the costs of similar funds with different product providers. It is not an additional fee.

Other fees

A variety of other fees may be recovered by the institution e.g. government taxes, charges such as stamp duty and Bank Accounts Debit (BAD) tax. These may be recovered from the investor or from the fund. If recovered from the fund the cost is included in the MER.



Commissions

Commissions paid to financial planners by the product providers are paid from the entry fee or management fees you pay.

Investment options

Most superannuation funds offer several investment options over which their members can invest. These range from Cash (Low risk) to High growth (High risk) options and sometimes include *multi manager funds*. For risk adverse people RSAs can be used. SMSFs allow the choice of assets owned by the fund – Direct investments in shares, property, bonds etc. as against the managed investments used in the retail funds. It is possible to hold managed investments in SMSFs but this could to some degree defeat the purpose of self management of the fund.

Personal investment profile

Your personal investment profile takes into account your attitude to investments, the risk and volatility associated with the various asset classes, your age and your intentions in respect of the continued investment of your benefit in the future.

The possible options for investment in retirement and issues to consider when thinking about these options are discussed later in this paper.

Investment options explained

Most retail superannuation funds are 'unitised' products. Investors buy units at the 'issue price' and may sell them back to the fund manager at the 'redemption price' on the day when a requested withdrawal is paid. The issue price is usually a little greater than the redemption price on a given day. This difference is known as the unit price spread and takes into account the costs of buying assets and selling assets for the fund.

A unit is a portion of the fund and its buying and selling price is determined by the value of the assets held, adjusted for transaction costs such as *brokerage*. As the value of the *underlying assets* change so do the unit prices. The price of overseas fund units will be determined by both the value of the underlying assets and movement in international exchange rates. When unit holders receive their statements or redeem their benefits they hope to see the exit unit price higher than the entry price they paid to purchase their units.

As the income received by the fund is retained in the fund this is reflected in the unit price, together with the change in the value of the underlying assets. As a result, depending on what is happening in the various investment markets to which the superannuation member's benefits are exposed, the value of their benefit will rise and fall. What is important is to monitor the number of units held and the unit price. See section on Statements.

Cash

Cash options of superannuation funds invest in short term fixed interest assets where the maturity is usually less than 6 months. The volatility of this investment option is very low and the movement in unit price would not be expected to be significant.

As a general rule this option would not be used for large sums of money nor as a long term investment.

RSAs would generally be invested in this market sector and their capital, together with earnings when credited, is guaranteed by the product provider.

Fixed interest

When investing in the fixed interest option of superannuation funds the money is pooled and a range of Government, semi-Government and company bonds are purchased.

By actively trading these bonds on a specialised market, the fund aims to achieve a greater rate of return for the fund members than the interest which is paid on the bonds. If achieved, the result is a gain from revaluation or sale and is distributed as an increase in the unit prices.

In times of rising interest rates the fund manager may use other strategies to attempt to increase the trust's earnings.

Fixed interest options usually do not provide a fixed return and interest payments received may vary each time. Actual returns are not known until received.

Equities

Equity investments, (share investments) allow you to invest in a wide range of shares listed on a stock exchange by pooling your money with other peoples' money within the superannuation fund.

Equity investment options usually aim to provide a medium level of income and higher long term growth. Many equity investment options are available and their names often indicate the types of shares purchased e.g. Australian Imputation fund, Emerging Companies fund etc. The name may indicate the investments are in overseas equities, e.g. Global Share fund. Many fund managers provide a list of the shares owned by the fund to indicate the types of shares in which it invests.

The fund manager is responsible for the selection of shares as well as the timing of purchases and sales.

Property

Investments in property can be direct or indirect. With the majority of managed superannuation funds the investments are generally through listed property trusts or property securities trusts.

Listed property trusts are listed on the stock exchange and are bought and sold through a stockbroker. The fund manager buys a share in an existing pool of funds already invested in the property market.

To some extent the unit price of these trusts may vary with the value of the buildings owned. However, as with shares, their value is also determined by the market and can rise and fall. A feature of listed property trusts is that they often invest in only one type of property, e.g. shopping centres.

Unlisted property trusts directly own and manage real estate. They are not listed on the stock exchange. These are now rare as many have become listed property trusts.

A property securities trust is an unlisted trust which enables the pooling of money for investment in listed property related securities (shares and trust units). These investments offer potential income and growth. The unit price of the trust is linked to stock market fluctuations but units are bought and sold directly through the trust manager not a stockbroker.

Master trusts

Master Trusts and Wrap Accounts are the terms used by industry to describe these services known as Investor Directed Portfolio Services (IDPS) under Australian Securities and Investments Commission (ASIC) policy.

IDPS generally offer a menu of pre-selected investments/investment managers that investors can choose from to invest their superannuation benefits. Wrap accounts allow direct investment assets to be held in the funds but the management fee takes into account the value of these assets as well.

They are managed investment schemes where the investor has the sole responsibility for all the investment decisions often with guidance from their financial planner and fund managers.

They provide a service for acquiring and retaining investments where an investor can buy, hold and sell investments within a single administration arrangement that provides *consolidated means of reporting* on the investments held. The suitability of this style of investment service may not be appropriate to all investors. Superannuation master trusts/funds are regulated under the Superannuation Industry (Supervision) Act and managed investments are regulated under the Corporations Law.

One benefit of master trusts may be simplified reporting because the IDPS administrator will provide a single report on all your investments through the service. There is flexibility as investors are able to switch their investments between fund managers at little or no cost. The investments are often described as being through

wholesale funds which means the IDPS, and therefore the member, gets charged a lower management fee.

Investors invest in the IDPS and not the underlying investments. There is no direct contact with different fund managers. The investments in the chosen funds are held in the name of the IDPS, not the investor.

While master trusts and wrap accounts provide a greater level of flexibility (see above) passive investors who do not utilise this feature may pay a higher level of management and administration fees than if they used a single retail fund, because a fee is paid to the Portfolio Service.

Setting up a SMSF

A *trust deed* needs to be purchased or one drafted for you by an accountant, solicitor or legal service company. This deed establishes the existence of the trust and provides the rules of operation of the fund.

A SMSF can have up to a maximum of 4 members and each member must be a trustee of the fund. A member cannot be an employee of another member, unless they are related, and the trustees cannot receive remuneration for their services as trustees. A SMSF can also have a company as trustee (known as a corporate trustee) if each director of the company is a member of the fund and each member of the fund is a director of the company.

A tax file number must be obtained for the fund as well as an Australian Business Number (ABN).

An investment strategy needs to be formulated which must take into account the following:

1. An attempt to maximise member returns having regard to the risk associated with holding the investment
2. Diversification across asset classes
3. Ensuring the ability of the fund to pay benefits as members reach retirement and other costs incurred by the superannuation fund.

Positive considerations of SMSFs include:

The members have control of the investment decisions of the fund and choose the timing of purchase and disposal of assets. The cost of managing the fund may be less than retail funds and there may be potential for better performance.

However it should be recognised that the Trustees of the fund have to manage the investments of the fund and this can take time. They must ensure that rules relating to superannuation, including acceptance of contributions and *preservation*, are abided by. There are strict legal responsibilities of being a Trustee, various reports and returns must be furnished. The costs of accounting and auditing of fund must be met by the fund and investment decisions have to be made.

Annual member statements and a tax return of the fund must be prepared and the fund must be audited annually. Much of the work of managing the fund can be done by the trustees and it has to be on an *honorary basis*. It is possible to use an administration service or an accountant.

SMSFs can provide *income streams* in retirement.

Key features of RSAs are:

- capital guaranteed by the product provider;
- generally no upfront charges (contribution fees);
- administration fees may apply;
- no minimum contributions;
- benefit protection applies for balances less than \$1000 that contain or have contained benefits that are mandated employer-financed benefits; and
- optional life insurance may be available.

It is intended for RSAs to cater for small irregular superannuation contributions.

Superannuation fund statements

Superannuation funds issue statements at least annually, though most issue them twice yearly.

In addition to giving your personal details and the period it covers, your superannuation statement should give you the following details:

- Contact details of the fund;
- The number of units held in each investment option, exit unit price on the day and value of units. If the fund is a master trust with individually chosen funds within it, the details of each fund should be provided;
- The total value of the fund;
- Any insurance details;
- Benefit components – (Preserved, Unrestricted non-preserved etc.);
- Account transactions – (Amount of employee and employer contributions received, earnings, fees charged, number of units received or redeemed if applicable); and
- Details of investment allocation.

The member would like to see the exit unit price higher than the price paid to purchase the units. With the volatility of the investment markets this may not always be the case. Bearing in mind your age, the anticipated term of investment and your intentions at retirement in respect of the further investment of the funds decisions can be made about the reallocation of the member's portfolio to preserve capital or seek continued growth.

Options at retirement

There are two main options available at retirement. As the prime objective of superannuation is to provide an income to the member in retirement the obvious choice is to convert the benefit into an income stream. Income streams include superannuation pensions, allocated pensions, allocated annuities, market linked income streams (also known as term allocated pensions –TAP) and immediate annuities.

The second option is to withdraw the benefit from the superannuation environment, pay any applicable tax, and invest outside the superannuation arena.

It is also possible to convert part of the benefit into superannuation income streams and take a part lump sum.

For those considering converting their superannuation into an income stream that enables diversification over the investment markets their investment horizon can continue to be long term providing the same provider is used.

For those planning to use immediate annuities or to take a lump sum it could be prudent to transfer benefits from the more volatile aggressive investment options to the more stable, risk averse options in the years leading up to their retirement with a view to consolidating the growth gained in the past. The danger in doing this is that they may miss out on any growth during that time, but it ensures they do not have to crystallise a loss in the event of a downturn in the investment markets.

Income streams

NICRI has several leaflets describing the various income stream products.

In broad terms, the superannuation pensions are provided by the defined benefit superannuation schemes. Before refusing the option of these pensions it would be prudent of the member to compare what alternative income streams would deliver. As a general rule, at the end of the life of the member and any reversionary pensioner, if applicable, there would be no money left as a legacy to their estates.

The market linked income streams, allocated pensions and allocated annuities often use similar investment options to the accumulation phase of superannuation. Accordingly, it is possible that if using the same fund manager the superannuation benefit could be converted to the income stream without any need for reallocation of the investment portfolio and this minimises the risk of loss of capital, particularly if markets are down at the time of conversion. In the event of death any remaining balance in these products is payable to the member's estate.

The underlying assets for immediate annuities are usually in the fixed interest market. As a result it is necessary to liquidate existing investments to purchase them. In the event the markets in which the investments are held are down at the time this would mean the member crystallizes a loss.

If it is intended to convert your superannuation benefit to an immediate annuity or to take the benefit out of the superannuation environment it could be worth monitoring the value of the assets from as long as 5 years prior to retirement and moving them to less volatile options. While this strategy would mean that any growth in that period is missed it also ensures that if the markets did go down profits previously made have been consolidated.

The amount of superannuation a person can have concessional tax during their life time is known as the Reasonable Benefit Limit (RBL). There is a lump sum RBL and a pension RBL (which is about twice the lump sum RBL). The RBL against which the person's benefit is measured is determined by the types of income streams used, if any, and the amount of the benefit used to purchase a *complying income stream*.

Provided the member is within their RBL the conversion of their superannuation benefit to an income stream within the superannuation environment gives rise to tax effective income and defers paying any tax on the lump sum, if withdrawn from the superannuation environment.

Income streams from within the superannuation environment while taxable in the hands of the recipient, provide a 15% tax offset and, depending on the components used to purchase them, can provide a *deductible amount* – tax free income. They also can provide concessions in respect of eligibility for Government Income Support payments (age pensions).

Combinations of income stream products can be used which can assist in meeting various investment objectives. (See other NICRI publications on the individual products as well as Retirement Income Streams – a comparison).

Lump sum

For some people access to a lump sum may be necessary, possibly for the clearance of debts, purchase of a home, other assets or even a holiday. A superannuation benefit when withdrawn is taxable, albeit at concessional rates. Details of tax on withdrawal can be found in NICRI's publication, Redundancy and You, or from publications available from the ATO.

Others may choose to invest outside the superannuation arena. Tax concessions, in the form of the Senior Australian Tax Offset (SATO), imputation credits etc. can give rise to a tax effective income while still preserving assets and eligibility to at least a part age pension may still be possible.

Super choice checklist

Check existing fund:

- is it performing to my need and objectives?
- does it have existing life cover attached that I need?
- if I exit will I be charged an exit/withdrawal fee?
- will switching to a new fund compromise my existing investment strategy?
- will I lose any employer benefits by switching to a new fund?

Check alternative fund:

- is it a complying superannuation fund?
- are there any other funds that would suit my needs and objectives better?
- what other features and benefits do they have that my current fund does not offer? – e.g. Insurance, investment options, switching.
- is there adequate diversification?
- do I understand the fund's objectives, management and investment styles?
- what insurance options does it offer? – e.g. Life, total and permanent disablement (tpd), income protection.
- what fees are involved? – See NICRI leaflet 'Investment Fees'.
- do I need to get advice? – See NICRI publication 'A Guide to the Financial Planning Process'.



Glossary

Asset Classes - Different groups of investable items of value.

Brokerage - A broker's commission for buying and selling on the instruction of the investor.

Capital guarantees - An investment which promises that the investor will be repaid the full value of their investment.

Complying income streams - An investment which offers regular payments, with certain characteristics that allows different treatment for social security and taxation purposes.

Complying superannuation - Superannuation funds or accounts that meet the requirements of the Superannuation Industry (Supervision) Act (SISA).

Compulsory contributions - Contributions made to superannuation that some employees are obliged to make as part of their employment conditions.

Consolidated reporting - A service that collates and provides data on a number of individual investments in a single reporting system on behalf of an investor.

Deductible amount - Portion of the annual payment from an income stream that does not form part of assessable income.

Defined benefit - A type of superannuation fund where the benefit is calculated according to factors such as; length of service or the time as a member of the fund, final average salary and the amount of contributions made.

Discount broker - An intermediary that buys and sells assets on behalf of an investor at reduced prices. It can be available as a phone or internet service but usually does not offer advice.

Diversification - The use of a number of different types of assets and asset classes when investing.

Honorary basis - No payment for services performed.

Income Stream - An investment that converts a lump sum amount of money to regular payments over a set period.

Multi manager funds - Investments that use a number of fund managers to make investment decisions on buying and selling assets on behalf of the investor.

Preservation - The time in which monies are to be kept in superannuation until a condition of release is met.

Product disclosure statement - A document that outlines information on an investment scheme. Information includes; fees, commissions, features, cooling off periods, complaint procedures and any other information that is material to an investors decision to proceed.

Salary/income continuance - Also referred to as income protection. It provides an income to the insured when unable to work as a result of being disabled due to sickness or injury.

Trust deed - A document outlining the trust title, property and objective or purpose of the trust. It lays down the rules within which the trust must operate, dictates its investment guidelines and describes how benefits will accrue to the beneficiaries under the trust.

Trustees - Appointees that monitor the trusts activities on behalf of the investors or beneficiaries to ensure it operates within the provisions of the trust deed and legal requirements.

Underlying assets - Assets in a fund where price movements determine the value of the fund.

Waiting period - Time from the total incapacity of the person insured to the time the payments commence.

