

Investment basics

Get to know some of the basics of investing before you choose how to invest your super.

Common investment terms

Here we explain some of the most common terms that are used to talk about investing.

Assets and different types of investments

An asset is something you invest in. This may include property, shares, bonds or putting cash in the bank. There are two main types of assets:

- Income assets are typically lower risk and more stable over the short term, but tend to produce lower returns over the long term. Cash and bonds are examples of income assets.
- Growth assets typically are higher-risk investments and more volatile in the short term, but tend to produce higher returns over the long term. Shares and property are examples of growth assets.

The four investment options provided by the APSS have different proportions of growth and income assets, with the Cash option all income, and the High Growth mostly made up of growth assets. The Conservative option has more income than growth assets. The Balanced option is the other way around, targeting growth over income.

For more details, check *How your super is invested* by exploring the APSS investment structure document that can be downloaded from the *Investment strategy* page at apss.com.au under the *Investments* tab.

The income/growth split is provided at the bottom of page 2 of this investment structure document, and is updated quarterly.

Investment return

The return on an investment is the amount of money an investment earns or loses over time.

Some of the return can be income earned by the investment (such as interest or rent). The value of some assets can also increase over time – this is called a capital gain. For instance, the price of a share may increase providing a capital gain.

A return can also be negative. If an investment loses value over time, this is called a capital loss. For instance, the value of property may fall, providing a capital loss.

The total return you receive on an investment depends on both investment income and any capital gains or losses.

Investment returns are normally shown as a percentage of the total amount invested.

Investment risk

All investments come with some risk, and risk can be both short term or long term.

Short term investment risk

Short term investment risk is the potential for your savings to go up and down in value over time.

If the returns from an investment are likely to change a lot over the short term, it is called a 'high risk' or a 'volatile' investment. If the returns are quite stable and don't change much over the short term, it's called a 'low risk' or 'stable' investment.

Over the short term, growth assets can be volatile. Over the long term, however, they have generally earned more than income assets.

Over the short term, income assets tend to be less volatile (or risky) than growth assets. However, they have generally earned lower returns than growth assets.

Investment basics (continued)

**Long term risks**

- The risk of not having enough money in retirement.

As a society, we are living longer than ever before, which means that we could be looking at spending another 30 years or more in retirement. It's nice having the extra time, but some of us face the risk of our savings not lasting through retirement. See page 3 for information on how much you may need to save, depending on your circumstances.

- Your savings not keeping pace with inflation.

Putting money into less volatile investments like the Cash option looks safer in the short term, and it is: you don't have the risk of capital losses, and your money can still grow. But in the long term, investing in cash may mean that your savings might not keep up with inflation. Inflation eats away at the value of your money and drives up the price of things. For more information on how inflation works, see page 4.

The Conservative option is expected to produce returns marginally above the rate of inflation in the medium term. The Balanced and High Growth options are more likely to produce returns that significantly beat inflation over the long term.

Spreading your risk

If you invest in a mix of growth and income assets, you spread your investment risk.

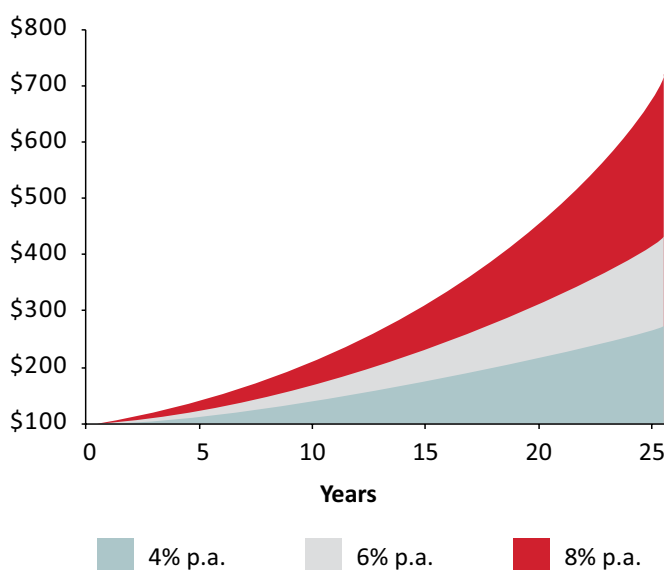
The four investment options in the APSS let you spread your savings between income and growth assets in different proportions to suit your circumstances. The Cash option only has income assets, the Conservative and Balanced options have a mix of income and growth assets, while the High Growth option is mainly invested in growth assets.

Earning interest on your interest

When you invest your savings, you earn investment returns. If positive, these investment returns are added to your account balance and the total is invested again, where it goes on to earn more investment returns year after year. This is known as compounding returns.

And the longer you invest, the more you'll benefit (assuming positive returns). The graph below shows an example of how a \$100 investment could grow over time because of compounding returns.

So, time and investment returns are key factors that can make a big difference to how your savings grow.



Investment basics (continued)



What to think about before choosing an option

Making your investment choice is a personal decision. What suits you, may be different to what suits your family or friends. To get you started, here are a few questions to think about.

How much money will I need to save?

This really depends on your personal circumstances, but the Association of Superannuation Funds of Australia (ASFA) has done some calculations that can be a useful guide. ASFA updates these calculations every quarter – visit www.superannuation.asn.au and click on *Resources* in the main menu, then *Retirement Standard*. The calculations benchmark the annual budget needed by Australians to fund either a ‘comfortable’ or ‘modest’ standard of living in their after-work years. A modest retirement lifestyle is considered better than the Age Pension, but means you will still only be able to afford fairly basic activities.

A comfortable lifestyle allows you to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as a nice car, private health insurance and the occasional international holiday.

With this in mind, think about how much money you may need to live on and more importantly, maintain the lifestyle you want, in retirement.

To work out your likely retirement income, employee members entitled to the 14.3% Defined Benefit can login to their account via apss.com.au and use the Retirement Calculator. It will show you an estimate of the yearly income you’ll get from your super plus income from the Age Pension (if you’re eligible). It will also show you how long your super is expected to last depending on how much you withdraw each year.

How long will my savings be invested?

You need to think about how long you plan to invest your super before you retire, as well as how long you want your savings to last once you do retire. The reality is that you may live another 30 or more years after you retire.

Take a look at the table below to see how long you might need to keep your savings invested based on how old you are now and your life expectancy. These time frames are averages so you may well live beyond these ages!

Current age	Male life expectancy	Female life expectancy
25	81	85
35	81	85
45	82	85
55	83	86
65	84	87

Source: Australian Bureau of Statistics, Table 1: Life Tables, States, Territories and Australia - 2016-18 (30 October 2019 release). See <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3302.0.55.0012016-2018?OpenDocument>
Note that life expectancies above have been rounded down to the final expected birthday.

Investment basics (continued)

How will inflation affect me?

When you think about how much money you are likely to need, remember to take inflation into account.

Inflation increases the cost of living and erodes the purchasing power of money, so by the time you retire, your day-to-day living costs will be higher than they are today.

For example, the purchasing power of \$100 in 1990 had more than halved by 2019 with the \$100 “basket of goods and services” you could have bought in 1990 costing \$200.39 in 2019 (see www.rba.gov.au/calculator/). Imagine how much less purchasing power it will have in another 20 years.

When you save for retirement, it’s important that your savings grow more than inflation over the long term. Let’s revisit that example of the diminished purchasing power of \$100 from 1990 to 2019. If you had ‘saved’ that \$100 in a piggy bank at the back of your wardrobe, you would still have \$100 in 2019, but you could buy only about half as much with it. On the other hand, if you invested that \$100 in 1990 in a way that achieved an average annual compounding crediting rate of 5% p.a., that \$100 would have been worth around \$410 by 2019, according to ASIC’s MoneySmart ‘Compound interest calculator’ (search for it at moneysmart.gov.au). So keep this in mind when you are deciding which option(s) to invest in.

How much risk am I comfortable with?

Investment risk means different things to different people. To most however, it is the chance that investment returns may go up or down in value over time.

You cannot consider investment risk without investment return. Generally, the higher the risk, the higher the potential return over the long term, and vice versa. You must make a trade-off between the level of return that you are comfortable with on the one hand, and the level of risk that you are comfortable with on the other.

The level of risk you can cope with can change through your working life. For instance, if you are closer to retirement, you may decide to choose a lower-risk investment option and not be too concerned about returns, if the most important thing to you is protecting your money.

However, if you have many years to go before you need to access your super, you may decide to choose a higher risk option and seek higher, long-term returns.

More information

To find out more about investing or the investment options available to you, visit apss.com.au

You can get advice about how to invest your super

All APSS members can access free general advice by contacting the APSS SuperPhone service on **1300 360 373**. Our service representatives are not licensed to provide personalised advice.

If you would like personalised financial advice, you are free to choose any financial planner of your choice. ‘Moneysmart’, the consumer website of the Australian Securities & Investments Commission (ASIC), has some tips on choosing a financial adviser that suits you and your goals. Go to www.moneysmart.gov.au and search for ‘Choosing a financial adviser’.

Important

This fact sheet contains general information about the Australia Post Superannuation Scheme (APSS). It is not intended to be financial product advice and does not take your personal circumstances into account. Before acting on any information contained in this document you should first consider its appropriateness to your own circumstances. You may wish to seek the advice of a licensed financial adviser. Neither PostSuper Pty Ltd (the Trustee) nor Australia Post or any Associated Employers holds an Australian Financial Services Licence and, therefore neither is licensed to provide you with financial product advice.

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