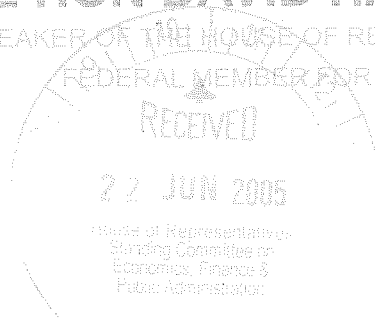


David Hawker

THE HON DAVID HAWKER MP

SPEAKER OF THE HOUSE OF REPRESENTATIVES
FEDERAL MEMBER FOR WANNON



Friday, 10 June 2005

The Hon Bruce Baird MP
Chair - House of Representatives Standing Committee on Economics,
Finance and Public Administration
Parliament House
CANBERRA ACT 2600

House of representatives Standing Committee on
Economics, Finance and Public Administration

Submission No: 3

Date Received: 22/6/05

Secretary: Sharon Byrd

Dear Mr Baird *Bruce*

Thank you for your letter of 6 June 2005 relating to the inquiry into improving the superannuation savings of young people under age 40.

In response to your request for submissions could I suggest that your committee looks seriously at this advertisement which I have given copies to many young people to emphasise the value of saving.

I believe it says it all, but more seriously we need to educate young people, probably at secondary school level, on the importance of saving and the value of starting young.

I trust this information is of use.

Yours sincerely

David Hawker

THE HON. DAVID HAWKER, MP
Speaker of the House of Representatives
Federal Member for Wannon

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Ref: cdb/dh:kk

LISTENING to you, DELIVERING for you.

THIS IS PERHAPS THE MOST INFURIATING AD YOU WILL EVER READ. UNLESS YOU ARE 21.

N^o 5 WHAT YOU ARE about to read will fascinate you, or infuriate you, or both. It will also present you with a delicious paradox, by proving that a person who decides to stop saving can accumulate considerably more than someone who decides to save diligently all the way to 65. Come again? Let's put it another way. This insight is about the saving ethic and as with its cousin, the work ethic, the underlying truth is that saving smarter beats saving harder. Disciplined saving is the ethic's essence. Discipline is even more important than dollars when it comes to producing a result.

You will probably wish someone had explained all this to you when you were young enough to really learn and profit from it. Still – and this is your consolation – you can be the someone who explains it to someone else; to a young person who still has the time to profit from it. It 'It' is the 'magic of compound interest', and it isn't really magic at all – it's simple mathematics. But magic for most is more intriguing than maths, so let's think of it as magic.

Imagine you are 21 again. You decide, because someone explained this magic to you, to start with \$5,000 and then add to it at the rate of \$1,000 a year – until you turn just 30. Then you stop saving altogether and leave your nest egg alone until you turn 65. Let's say, for the sake of this comparative exercise, that you earn an average return of 8% p.a. (after fees and taxes) which you always reinvest. Let's say, again for the sake of the comparison, that inflation is 0% (so your *real* return is a healthy 8%).

Now imagine an alternative scenario. Again, you are 21 but decide to do nothing about saving until you turn 31. At 31, you put aside \$5,000 – adding to it at the rate of \$1,000 a year until you turn 65, again reinvesting the 8% p.a. average return. You figure you will more than make up for lost time by saving harder – i.e. for 35 years rather than 10 years.

Which is the better strategy?

The 10-year saving plan, in which you will have invested \$14,000 (a \$5,000 initial contribution then \$1,000 a year) will reap \$332,413. The 35-year plan, in which you will have invested \$39,000 – neatly

three times as much – will reap considerably less: \$227,077.

Here are the basic calculations for you to check. The bold type represents those years when you contribute \$1,000. The return, remember, is a constant 8% p.a....

21 years old	5,000
22 years old	6,400
23 years old	7,912
24 years old	9,545
25 years old	11,309
26 years old	13,213
27 years old	15,270
28 years old	17,492
29 years old	19,891
30 years old	22,483
31 years old	24,281
32 years old	26,224
33 years old	28,322
34 years old	30,587
35 years old	33,034
36 years old	35,677
37 years old	38,531
38 years old	41,614
39 years old	44,943
40 years old	48,538
41 years old	52,421
42 years old	56,615
43 years old	61,144
44 years old	66,036
45 years old	71,319
46 years old	77,024
47 years old	83,185
48 years old	89,841
49 years old	97,028
50 years old	104,790
51 years old	113,174
52 years old	122,227
53 years old	132,006
54 years old	142,566
55 years old	153,971
56 years old	166,289
57 years old	179,592
58 years old	193,960
59 years old	209,476
60 years old	226,234
61 years old	244,333
62 years old	263,880
63 years old	284,990
64 years old	307,790
65 years old	332,413

The table shows the dramatic effect that compound interest can have on a disciplined

saving plan, even when you decidedly stop saving. Imagine now a savings plan that goes beyond regular saving into regular investment:

Discipline pays dividends.

A plan that reaches the essence of sound, balanced investment. Imagine getting that kind of opportunity, that kind of education, that initiation to the magic, when you were just 21.

BT offers such a plan, the Easy Investment Plan. It enables a young person to start investing with \$1,000 and \$100 a month – via, say, the BT Future Goals Fund. (This fund does not guarantee, nor promise, the minimum 8% essential to the example given earlier. But it has earned 15.30% p.a. since inception in March 1991¹.)

If you are a parent or a grandparent who would like to get a young investor started, or if you are someone who believes it's never too late to start saving yourself, you might like to investigate the range of BT funds. Equally you can apply this discipline to the investments you make in your superannuation.

BT will be happy to send you full details.

For further information, contact your financial adviser, or call BT on 1800 022 555. Alternatively you can visit BT Online at www.btonline.com.au or clip and post the coupon – no stamp necessary.

Mr/Mrs/Ms _____
Address _____


Postcode _____

Phone (BH) _____ (AH) _____

Reply Paid No. 13, BT Funds Management,
PO Box H184, Australia Square NSW 1214.

Or send by fax to (02) 9232 5770.

¹ Returns are based on redemption to redemption prices to 1 April 2000. Assume re-investment of income (net of fees) and do not take into account the payment of any up-front fees or income tax. A copy of the current BT Investment Selection Prospectus (concerning the BT Future Goals Fund), dated 28 May 1999, has been lodged and is available upon request from any BT office. Applications for investment can only be made upon receipt of an application form attached to a current prospectus. BT Funds Management Limited (ACN 062 916 438) is the Manager of the fund. This is general securities advice only and is not intended to constitute a securities recommendation. The advice does not take into account the investment objectives, financial situation and particular needs of an investor. Before making an investment decision you should take into consideration whether the advice is appropriate to your particular investment needs, objectives and financial circumstances and recommend you consult a financial adviser. April 2000.

 **BT Funds Management**