Venn Brown
Investment Research & Advisory

Markets & Economics

The long game

19th March 2024

The eighth wonder of the world

To highlight the impact of long-term investing, we calculated the retirement value of superannuation contributions made during four different decades of a person's working life. For simplicity, we assumed a superannuation (savings) rate of 10% of a person's annual salary. The share of returns provided by each decade are largely the same irrespective of whether the rate is 9%, 10% or 11%:

1. Ages: 25 – 34
2. Ages: 35 – 44
3. Ages: 45 – 54
4. Ages: 55 – 64

Using the current Australian average income for each age bracket, we modelled returns based on the ASX All Ordinaries Accumulation Index[1] from March 1984 through to today (without fees). As shown in Table 1, the contributions made when someone is aged 25-34 represent just 22% of their total contributions, but 40 years later, these contributions represent 62% of their total savings. As the famous quote goes "Compound interest is the eighth wonder of the world."

Table 1: First decade of work provides 43% of total retirement savings

Age bracket	25-34	35-44	45-54	55-64
Avg annual income	$65,425	$80,406	$81,050	$64,550
Total contributions	$70,169	$88,446	$89,155	$71,005
Share of contributions	22%	28%	28%	22%
Value at retirement	$1,977,786	$815,976	$297,987	$116,056
Share of retirement value	62%	25%	9%	4%

Source: Australian Bureau of Statistics, Factset, Venn Brown

ASX All Ordinaries

ASX:XAO

Sector	All
Date	19th March 2024
Value	7,933
52 week range	6,939 / 8,113
Market cap	$2,625m
Yield	3.6%

ASX Small Ordinaries

ASX:XSO

Sector	All
Date	19th March 2024
Value	3,031
52 week range	2,551 / 3,083
Market cap	$262m
Yield	2.9%

3-year Price Chart

Analysts

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[1] The accumulation index started in 29th May 1992, but we estimated prior years based on the average relationship between the price and accumulation index since the index commenced.

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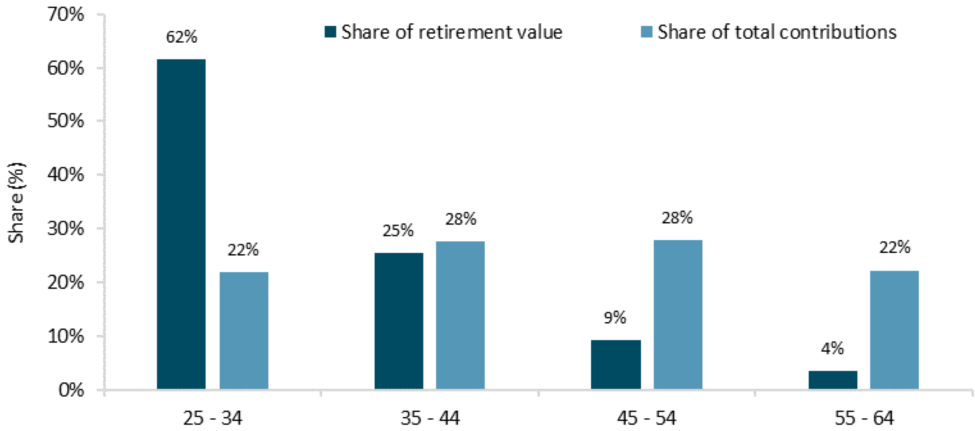
As is evident from Figure 1, the value of the contributions at retirement is determined by the time in the market rather than the size of the initial contribution, with the retirement value of later decades' contributions progressively decreasing as a share of the total.

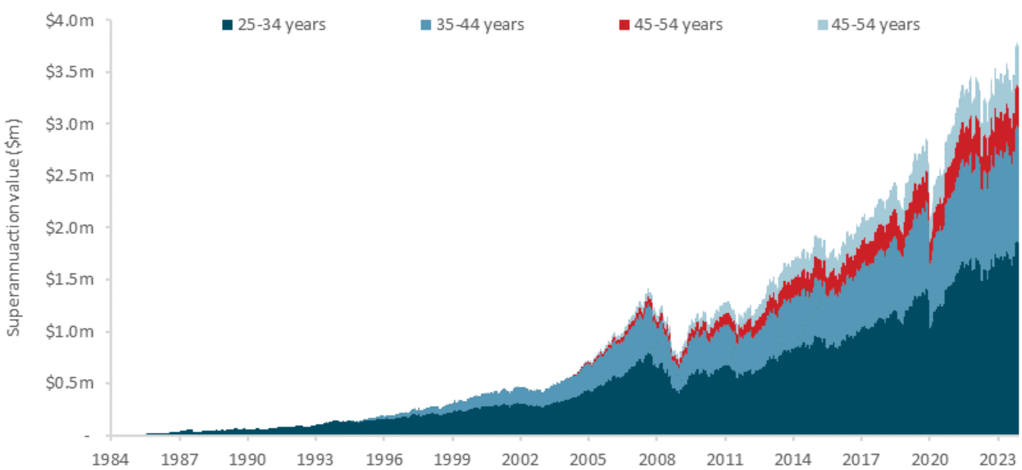
Figure 1: Time in the market outweighs initial contribution size



Source: Australian Bureau of Statistics, Factset, Venn Brown

The point is illustrated more clearly in Figure 2, which shows the total superannuation savings by contribution period, assuming all contributions are invested in the ASX All Ordinaries Accumulation index.

Figure 2: Time in the market far outweighs size initial contributions



Source: FactSet, Venn Brown

Despite earlier contributions being impacted by several downturns (1987, 1991, 2000 tech bubble), after 40 years, the contributions made between 1984 and 1994 represent 62% of total retirement savings. Meanwhile, contributions made during the traditional peak earning period (ages 45-54), representing 28% of total contributions, only generate 9% of total retirement savings.

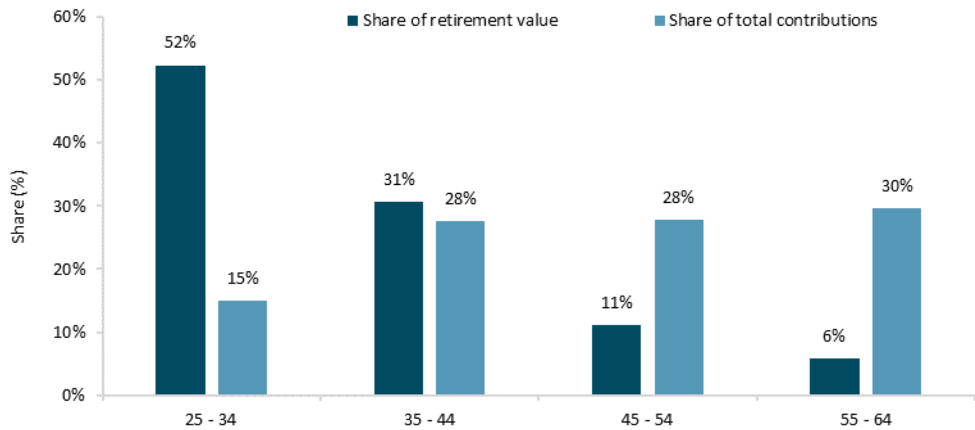
Actual amounts will vary based on an individual's income and the timing of contributions, but as shown in Table 2, even after increasing the average income and contributions in the later age brackets by +50% (100% versus the average in the final decade), the pattern still holds with contributions in the first decade providing 52% of total retirement savings. Even with contributions in the second decade almost double those in the first ($121k vs $65k) providing 28% of total contributions, upon retirement, those contributions still only provide 31% of the total.

Table 2: Early contributions still dominate retirement savings

Age bracket	25-34	35-44	45-54	55-64
Contributions – v1	$65,425	$80,406	$81,050	$64,550
Contributions – v2	$65,425	$120,608	$121,575	$129,099
difference	0%	50%	50%	100%
Share of contributions	15%	28%	28%	30%
Retirement value	$1,895,234	$1,112,695	$406,346	$211,011
Share of retirement value	52%	31%	11%	6%

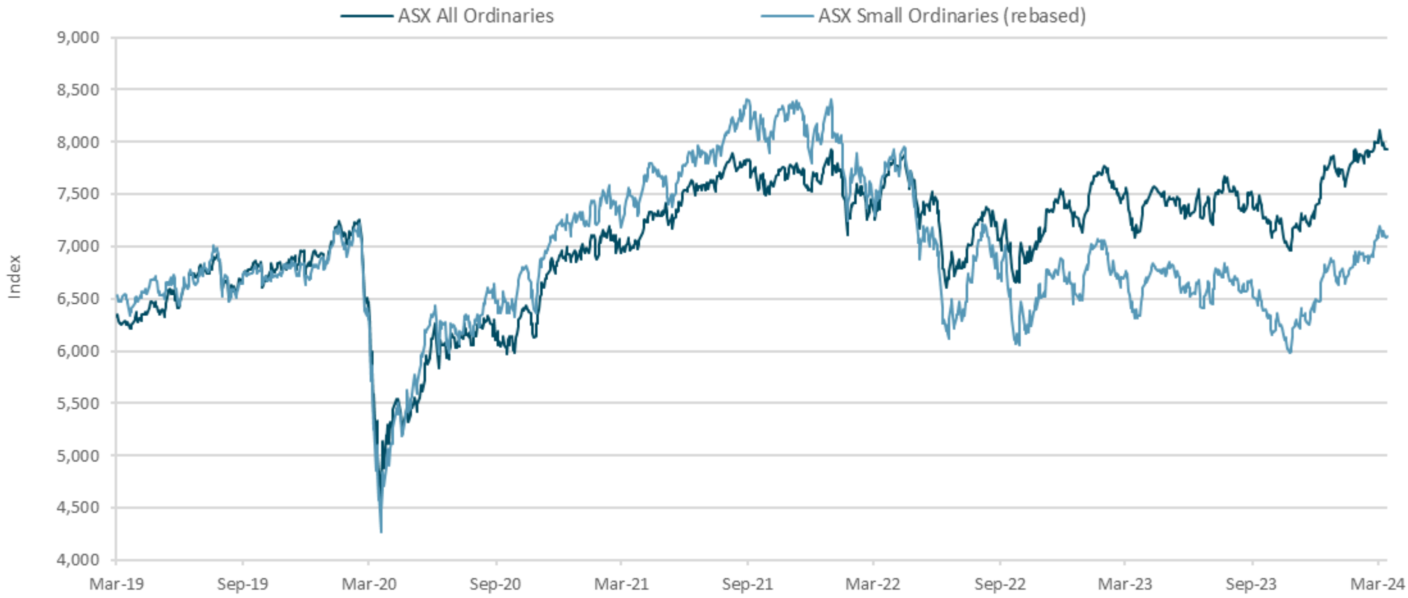
Source: Australian Bureau of Statistics, Factset, Venn Brown

Figure 3: Just 15% of contributions provides 52% of retirement value



Source: Factset, Venn Brown

Share price performance



Source: Factset

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