SMSF with Justin Beeton

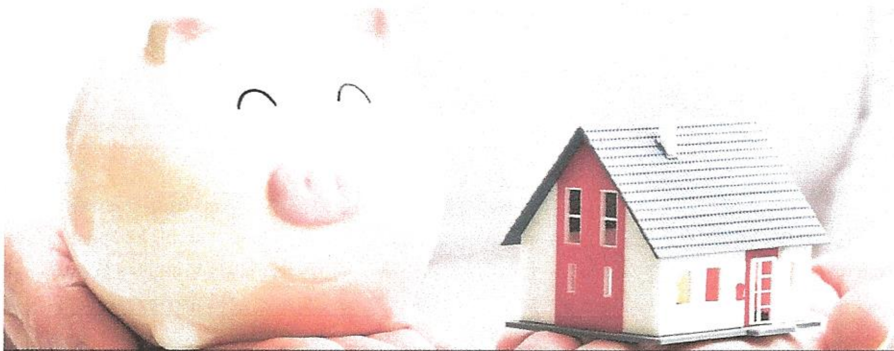
For more **SMSF** information visit www.spionline.com.au

SUPER VERSUS LOAN REPAYMENT

Legislative changes mean some investors could be better off investing more in their super than in paying off their mortgage, writes **Justin Beeton**

Until recent legislative changes to super, it was widely accepted that the best investment strategy was to pay off all non-deductible debt as fast as possible. For most of us, that meant the mortgage; however, the answer is no longer as straightforward.

Paying off your mortgage provides many benefits, including reducing the interest you currently pay and effectively giving you an after-tax investment return equivalent to your mortgage rate.



INVESTORS NOW HAVE A BALANCING ACT TO DEAL WITH

While home loan repayments come from after-tax dollars, super contributions can be made from pre-tax money through salary sacrifice. This means that, like most Australians, you would only pay 15 per cent tax on your super contributions and rather than being subject to a marginal tax rate of up to 46.5 per cent, you would therefore have more money to invest into super than you would have available to pay off your mortgage.

This would provide you with more money to invest, giving super a key advantage over paying off your mortgage.

However, whether or not you can benefit from a super versus mortgage strategy will depend entirely on your personal circumstances, and because the issues are complex and interdependent, it makes sense to seek professional financial advice.

Firstly, review your finances. Depending on your circumstances, you may be able to free up cash by re-scheduling your commitments, or by altering the structure and terms of your mortgage. For example, you could reduce your current mortgage payments by extending the term of your home loan, or by converting to interest only.

Secondly, you could invest the spare or 'freed-up' cash into super up to the concessional contribution limit, using salary sacrifice, so your contributions would be taxed at 15 per cent, rather than at your marginal tax rate.

Thirdly, once you reach retirement and are at least 60 years of age, you could then pay off your mortgage by drawing the funds from your super – tax free. The potential tax advantages you would gain by putting money into super, plus the growth in super over time, could leave you significantly better off. And, you would still benefit from any capital growth in your home.

Your age is also an important factor to consider as you obviously can't access your super until you reach your preservation age, which is currently 55. This means that you would have to be comfortable locking away your money in super, rather than having access to it as equity in a home.

While you can currently draw a lump sum out of your super in retirement, the government may amend its superannuation rules, as we have seen in the past few weeks. If the government restricts your ability to draw a lump sum out of your super in retirement, the effectiveness of this strategy may be reduced.

You also need to be aware that the returns achieved within superannuation will also have an impact on the success of this strategy, particularly in years when investment markets perform poorly. This is an important consideration if you are planning to use your super savings to pay down your mortgage at retirement.

There are numerous investment strategies and options available out there – you just need to be savvy and do your research. ■

"WHETHER YOU CAN BENEFIT FROM A SUPER VERSUS MORTGAGE STRATEGY WILL DEPEND ENTIRELY ON YOUR PERSONAL CIRCUMSTANCES"

Justin Beeton is founder and managing director of The SMSF Club

Prop + Economy (SMSF)