Plant & Associates

Super v Mortgage

It has all been repeated to us – pay off your debt, mainly your mortgage that is not deductible! However, the Government is continuously changing super rules which are becoming more favourable depending on your circumstances.

Your age, interest rates, super returns and your income level determines the benefits, but if you are over 50 the super v mortgage strategy proves to have its numerous benefits & advantages. Consider the general for and against arguments if you invest in super and the key factors to consider.

Paying your mortgage	Paying your super
By putting your spare cash into your mortgage this: • Reduces the interest you pay • Effectively gives an after-tax investment return equal to your mortgage rate • Allows flexibility as most home loans now have re-draw facilities – access to your money when you need it most • Gives you tax free capital gains when you sell your home	• Super contributions can be made from pre-tax money through salary sacrifice – you only pay 15% on your super contributions (rather than your marginal rate), this will allow you to invest more into your fund • Investment earnings in super are taxed concessionally – maximum 15% on income and up to 10% on capital gains rather your marginal tax rate • After age 60, income from withdrawals from super are generally tax free

Important factors to consider:

- **Age/time to retirement** – you can't access your super until you turn 65 or preservation age. You have to be comfortable locking your money into super rather than having access to equity in a home. The further you are from retirement the less suitable it is for you to be investing in super.
- **Super returns** – low or even negative returns are possible especially when markets are performing poorly. You must consider this if you are planning to use your super savings to pay down your mortgage at retirement
- **Interest rates -** if your interest rate on your mortgage is higher than your super return, the super strategy is not likely to be beneficial to you.
- **Income level** – super strategy is best if you are on a 30% or higher marginal tax rate
- **Non financial consideration** – people want the comfort and security of owning your own home, especially when nearing retirement and are prepared to trade off any potential financial benefit

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Accounting, Tax and Business Advice