StatewideAssets

SUPER VS MORTGAGE. CAN YOU GUESS THE WINNER?

The pros and cons of using your spare income to either pay more off your mortgage or increase your super need to be weighed up.

The direction you take depends on a few factors such as your age, how much you earn, your level of debt and your income tax rate.

Typically, if you are in your twenties for instance, you may not want to save for a retirement that is 40 years or more away. A better strategy might be to invest in a home where you can build some equity before you start considering a retirement strategy.

However, the older you get, the more you might want to invest in your superannuation and begin the transition to retirement financially.

Things to consider if you take the mortgage route:

- Paying no tax on growth in the value of your family home
- Access to redraw facilities if you need a quick flow of cash
- Equity which you can borrow against
- Reliance on the property market as a long-term strategy
- Changes to interest rates.

Things to consider if you contribute more to your super:

- Boosting retirement income
- Tax-effective as tax on investment returns is capped at 15%
- Tax-effective when you salary sacrifice
- Potential benefits of Federal Government co-contributions if you earn less than $46,920
- Inability to access funds if you are under retirement age.

Questions to ask yourself

If you are at the time in life where you feel it's better to add more to your super, here are some questions to consider:

How much do you owe on your mortgage?

Sit down and do your sums to figure out how much money is going into repayments, and how long it will take you to pay off your mortgage.

How is your mortgage set up?

Do you have an interest-only strategy at the moment and how long is the life of your loan? It might be worthwhile considering if this needs to be changed. Switching to an interest only loan may also give you more cash-flow that can be invested into your super.

Is there cash looking for a better home?

You may have more money floating around than you think and some can go into growing your super balance.

Do you have the capacity to salary sacrifice?

Your employer may allow you to salary sacrifice some of your income which will be taxed at a maximum rate of 15%, saving you a tidy sum in tax if your income is currently being taxed at a higher rate.

Assess your personal situation to identify how much cash you've got and whether it could be better placed to give you more money in your retirement.

Source: Colonial and Capstone Financial Planning, 11 March 2015

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