Quarterly question

Should I pay off my home or deposit surplus cash into my super?

With official interest rates at a 53 year low, the question arises as to whether it is better to pay off your home loan or place surplus cash into superannuation. It's an issue a number of people are pondering.

Recent research undertaken by REST Industry Super found the vast majority of Australians prioritise their mortgages over their retirement savings. Whether this is the most prudent strategy depends on your individual circumstances.

Variables to consider include your personal tax rate, age, existing debts and contribution caps. It is also important to weigh up your desire for financial security and the funds you want to have available for other investments.

What are the advantages of putting money into your mortgage?

- You will reduce your interest repayments (although payments will usually be made out of after tax income)
- Your money is, in effect, earning tax free interest at the mortgage interest rate
- Your home loan may provide other handy features such as a redraw facility or offset account
- When you sell your home, the profit won't attract capital gains tax
- Increasing the equity in your home will give you greater borrowing capacity for other investments

What are the advantages of putting money into your super?

- Salary sacrifice allows you to make pre tax super contributions
- The contribution tax on super may be less than your marginal income tax rate
- Investment earnings within the super fund could be taxed at a lower rate than your marginal income tax rate
- Over the age of 60, if you receive your super as an income stream, the income is usually tax-free

Why age matters

If you are young and retirement is a long way off, paying off your mortgage frees up cash to make other investments.

Remember, you normally can't access your super until you are 65 years or reach your preservation age. If you are young and put all additional savings into super, you need to be confident you can earn enough to live comfortably until retirement.

Many older people opt to pay off their mortgage before finishing work giving them the security of living without a mortgage during retirement.

Income tax rates

Another consideration is your marginal tax rate. For higher rate taxpayers, the mathematics lean towards super contributions. It is generally accepted that if you are paying 19% tax or higher[1], super may be a more tax effective option.

Nothing stays the same

With interest rates at their current low levels, there is only one way for them to go. Servicing a loan may be easy at current interest rates, but what if they rise and your life circumstances change? What if you lost your job or the size of your family increases?

On the other hand, putting money into super exposes you to volatile global markets. If your super fund performs poorly, this may drastically affect how comfortably you can retire. The government has long encouraged people to put money into super, but there are no guarantees how well individual funds will perform over time.

The mortgage vs super debate is sure to continue. It is a complex issue, especially when it comes to the tax implications of both options.

We encourage you to chat with us first BEFORE you make any decisions.

1. www.superguide.com.au

Take a look!
ASIC provides an online super vs mortgage calculator. Click on the QR code to visit the website.