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Don't Doubt Your Super

Despite the current market blues, Australians should not "doubt" their superannuation, according to financial strategist Theo Marinis.

"Unlike a daily bank account, Super should be thought of in terms of five-year blocks.
When viewed from this perspective, despite the biggest downturn in the markets in 21 years, $100,000 invested in super on 1 July 2003 would still have been worth $152,300* five years later. It is a long term investment," Theo said.

"People who are planning retirement will rightly say 'Yes, but last year I thought I was going to have more than I will actually receive;' which is absolutely true. Like all investments, the actual value of superannuation is only realised on the day you sell. Paper profits are indicative only.

It is important to remember as well, that the pain of market falls can be considerably offset by having savings in super due to their tax advantaged investment environment.

From the outset, the maximum tax rate on superannuation contributions is 15 per cent, compared with a tax rate of up to 48.5 per cent when after tax dollars are applied to other investments. Depending on your marginal tax rate, this translates to up to 31.5 cents per dollar extra to invest within super compared to an investment outside of super.

For example, if you earn $100 dollars for your work and based on the top marginal tax rate and you wish to invest in shares, the amount available after tax to purchase those shares would be $51.50. However, if the same shares are purchased within a superannuation fund the net amount available for investment would be $85.00. Regardless of how the market falls you will still have considerably more shares if you invest and hold your investments through a superannuation tax structure!

Similarly, earnings on super funds are taxed at a maximum rate of 15 per cent. This rate falls to zero when superannuation moves to a pension fund.

It is my belief that Superannuation should be taught as part of the school syllabus, as by the time the current crop of year 12 students are facing retirement, the size of an average investment in superannuation will be worth more than the value of people's homes. A full understanding of our national retirement strategy is clearly missing in the community and I believe that this needs to be addressed.

I wrote Sexy Super? as a tool to help my clients understand their most important asset and anecdotally many of them have passed it on to their friends and families to help build more knowledge.

It is the same money earned and invested; it is just the choice of the tax structure which determines how good the outcome will be for you."

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People should not 'doubt' their super; rather they should embrace it and invest every spare dollar they have and take advantage of the generous tax concessions available to 'super-charge' their investments.

* Source Russell Investments - Balanced Fund Class A (70% Growth 30% Defensive portfolio) 5 year pa return to 30 June 2008.

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