How you could super-size that $950

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Superannuation

KEVIN Rudd might not think much of this idea, but there's a way his stimulatory package this week could really put a bit of zing in your super. You can turn his $950 into another $2375 — and more over time — with a spot of forward thinking. It has a certain appeal, even if it doesn't help the country a great deal to start with.

Here's how it works, as explained by accountantsRus chief executive Adrian Raftery. "By taking the federal Government's stimulus package, anyone earning under $30,342 could take their $950 tax bonus payment and make it a $950 personal contribution to their superannuation fund.

"This would trigger the Government's co-contribution arrangements, leading to a further contribution of $1425 into their super fund — all up, that's $2375.

"Assuming that financial markets recover some day, and we take an average growth rate of 5 per cent, that sum could be worth $3868 in a decade."

Clearly this is not in the spirit of the proposed announcement but it is a great strategy to boost the investments for those on lower incomes, says Raftery. But don't feel too guilty, as the super funds will eventually invest your money somewhere.

There is one flaw to this scheme, but it's a big one: you might actually need to spend the cash on the business of living rather than in 20 years when you retire.

"It's not a strategy for everyone, particularly those struggling with financial hardship or who have lost their job," Raftery concedes.

For those who might be interested, there is some fine print. An investor must satisfy all the co-contribution criteria and be able to forgo the use of the money now.

"It is all legitimate, though I doubt many people will do it," says financial strategist Theo Marinis.

"It illustrates how attractive superannuation can be — it remains the most tax-effective savings vehicle bar none.

"Super has fallen in value in the last 18 months or so because the markets have fallen, not because of a flaw in the system. If you have held share investments outside super, they have fallen with the markets just as much, even though they may have been nowhere near a super fund. In fact, if you had been building up such a non-super share investment portfolio over the last few years you would have saved much less outside super to begin with, even before the recent correction hit.

"That's because you would only have been able to save into the non-super shares with after-tax savings.

"Remember that personal marginal tax rates are much higher — up to 46 per cent — for every dollar of income earned above $34,000, compared to the 15 per cent maximum rate in super funds."

Marinis suggests people who invested in shares in super via salary-sacrifice savings would have had a much larger portfolio before and after the correction, since they would have been paying less tax.