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No, Your Kid's Super is NOT a Rip-off

"Clara***** is 21 and has approximately $18,000 in her super fund, despite still being a full time university student" commented Adelaide based financial strategist, Theo Marinis.

"By the time Clara is 61 this alone should be worth $193,715# after 15% super fund tax on earnings, even if she doesn't ever contribute another cent! Although of course, thanks to Super Guarantee she almost certainly will." Theo said.

"Furthermore, under current rules, this amount could be withdrawn tax free at age 61.

In real terms, $193,715 in 40 years (based on a 2.5% pa average inflation rate) would be the equivalent of approximately $72,145 today – an effective quadrupling of Clara's initial investment pool.

As I've told Clara's family, this example demonstrates clearly the three BIG secrets of Super – regular investment, compound interest and a low tax investment vehicle.

It is why I say 'Super – as soon as you can, as much as you can, for as long as you can!'

Parents frequently complain to me that the super contributed by their kid's part-time work is simply being eaten away by fees and charges. This doesn't have to be the case. In fact, the solution is simple.

In Clara's case, the few thousand dollars she had contributed from around 15 years of age were being consumed by fees and costs and her Mum and Dad were angry and unimpressed. My advice to them was to 'tip in' as non-concessional contributions, $20 per week. Given the enormous expense of raising a teenager, this proved to be barely noticeable and by the end of a year, without too much bother, they had contributed an extra $1,000 to her superannuation fund.

As a result, Clara qualified for the federal government's current co-contribution of $500 per year (previously $1,500 per year when Clara commenced her part time, after school work a few years ago). Her annual income was then, and still remains well below the 2015/16 total income limit of $50,454.

Before too long, Clara's super balance was more than enough for the investment earnings to pay costs and fees and for the benefits of compound interest to start working for her. In addition, her family has the peace of mind that she is covered by life insurance and income protection insurance benefits provided through her super.

The experience has also, unexpectedly, been a great life lesson in finance for both Clara - and her parents. Clara is blown-away by having already locked in almost $200,000 in future retirement benefits, even before she begins really contributing in a big way when she enters full time employment in the next few years!

Clara now also understands the benefits the Super Guarantee will deliver throughout her working life.

I recommend to parents that once a week they contribute the cost of a nice bottle of South Australian wine to their young-adult's long-term wealth creation and to their financial education. Don't just let the kid's super fund consume all the dollars – build it up, with the government's help and make it an exciting nest egg," Theo said.

***not her real name – but she is a very real and excited person!**

#***Assumes a net annual return of 7.2% p.a. over 40 years after 15% pa super fund earnings tax.***

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