

Why a \$2m super balance should be your retirement savings goal

It's a huge chunk of money, and elusive for many, but there are several reasons why building a big superannuation balance of \$2m is 'absolutely achievable'.

By ANTHONY KEANE

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More people should aim to hit a target of a \$2m superannuation balance for their retirement, experts say. Picture: iStock

Two million bucks is a lot of money, and if you're retired and it's sitting in your superannuation it can be worth much more.

<https://www.theaustralian.com.au/wealth/superannuation/why-a-2m-super-balance-should-be-your-retirement-savings-goal/news-story/6b17e2f435e537a9f796721d734803ac>

Big super nest eggs are more achievable than ever but remain an elusive but worthwhile goal, investment specialists say.

The average super balance for Australians aged 65-75 today is between \$400,000 and \$500,000 depending on gender, while median balances are about half that. Yet the system itself delivers [tax-free retirements](#) to people with current balances up to \$2m.

That makes \$2m a worthy savings target, and even though this figure feels – and is – out of reach for millions of Australians, it is becoming increasingly possible, and also increasingly necessary for those who feel locked out of the homeownership market by [soaring property values](#).

JBS Financial Strategists chief executive Jenny Brown said a \$2m super balance at retirement was “a great goal”, and several of her clients had achieved it or were close to getting there.

“It gives you choices,” Ms Brown said.

“Do you want to retire a little bit earlier, do you want to do more travel? If you don’t have the resources behind you it’s a lot harder to tick the bucket list in what you want to achieve.”

Ms Brown said [compulsory employer super](#) only started in 1992, contributions had built up over 34 years, “and now that it’s at 12 per cent, (\$2m is) absolutely achievable”.

“Not if you’re going to take long-term big gaps out of your working life, or if you’re earning \$40,000-\$50,000 a year, but if you’re a professional on a reasonable to good income, absolutely it’s achievable,” she said.

Compulsory super puts [young adults today well on the way towards \\$2m at retirement](#), and a few tweaks and investments in their early decades could make a massive difference later in life.

ASIC’s Moneysmart.gov.au superannuation calculator shows a 30-year-old today with an average \$52,000 in super and earning the average Australian wage of \$105,000 can expect to have an \$800,000 nest egg at retirement in today’s dollars (around \$2m if not adjusted for inflation). That is purely thanks to compulsory employer super contributions, which reached 12 per cent of wages last July.

While \$800,000 is a long way from \$2m, the long-term nature of investing and compounding gives people a chance. Using super alone, our 30-year-old would have to pump in an extra \$420 each week to reach \$2m by age 67, so other investment strategies are needed.

Ms Brown said people often grew investments outside super, typically share portfolios and investment properties, during their 40s and 50s, and gains from these could be gradually pumped into super near retirement.

“Wait until you retire, sell the investment property in a year that you have little or no income ... and make a contribution into super,” she said.

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“If you’re under 67 you can make a personal deductible contribution into super and reduce that capital gain by \$30,000 each.”

Marinis Financial Group managing director Theo Marinis said very few people could reach \$2m in super from wages alone, but could make non-concessional contributions to achieve a tax-free retirement.

While concessional contributions currently have a \$30,000 annual cap per person, non-concessional contributions allow \$120,000 a year, and two future years can be brought forward to enable a \$360,000 lump sum stashed in super in just one financial year.

“If you’re over 60 and in the pension environment, you don’t pay tax on it anymore,” Mr Marinis said.

He said a \$2m balance at retirement – all tax-free in an account-based pension – was “what we should all aspire to, or try to get as close to as we possibly can”.

Gradually selling down share portfolios when approaching retirement, and pumping the proceeds into super, was a common strategy, Mr Marinis said.

“It’s going to be tax-free for the rest of their life,” he said.

Many advisers use a 5 per cent rule, where their nest egg will pay them 5 per cent income indefinitely during retirement.

A \$2m balance would then deliver \$100,000 of income annually, but the tax-free nature of super pensions means that net income is equivalent to more than \$134,000 salary received by a taxpaying employee.



Nurture a nest egg and tax-free benefits will flow in retirement. Picture: iStock

Metropole Wealth Advisory director Ken Raiss said that for [retirees with self-managed superannuation funds](#) holding Australian shares the income received could be even larger.

“In the self-managed super fund, you get 100 per cent benefit of any franking credits directly to members of that self-managed super fund,” he said.

“Whereas in the regulated fund those franking credits go in to reduce the overall tax level of the fund and then get distributed, which means they get diluted.”

Mr Raiss said the “worthy goal” of a \$2m retirement nest egg could be built up both inside and outside super.

“I like a strategy where there’s both, particularly if you are using property as part of your asset classes,” he said.

“It’s normally easier with more choice of financial institutions if you are borrowing outside of your super.

“Some people purchase property in super to take advantage of the leverage now and get the benefits of a tax-free environment in retirement in pension stage.”

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