Boost super by thousand

Growing a nest egg is easy

Anthony Keane

SUPERANNUATION still gets ignored by millions of Australians despite it being their largest asset – or second-largest if they own a home.

Annual superannuation fund statements are set to land in letterboxes and inboxes over the next couple of months, which means now is an ideal time to examine ways to grow your nest egg.

After all, it's your money, just like cash in a bank account, company shares or an investment property. The only difference is that you can't withdraw superannuation until age 60 – but the trade-off is that it comes with great tax benefits and incentives.

Super maximises the power of compound interest, where every $1000 in can potentially grow to almost $50,000 over a 50-year working life, based on historical investment returns.

"People don't like super because it's long-term, but that's the secret of super: Because it is long-term, compound interest comes into play," said financial strategist Theo Marinis, managing director of Marinis Financial Group.

Here's how to boost your superannuation balance by thousands of dollars a year.

SACRIFICE AND SAVE

Setting up salary sacrifice through your employer to divert some of your wage to super – before it gets slugged by income tax – is one of the most powerful ways to save.

Making it automatic every payday prevents the money being frittered away on other expenses, and the tax savings can be huge.

These contributions are known as concessional contributions, because they are concessionally taxed at 15 per cent as the money enters super – rather than it being subject to income tax at your marginal tax rate, which could be more than three times as much.

Since July last year, anyone has been able to make concessional contributions at any time and claim deductions up to an annual $25,000 cap.

This cap also includes employers' compulsory contributions.

"You get a tax deduction for doing it, so you save personal tax because you only pay 15 per cent in the super fund compared to up to 47 per cent tax (outside super)," Mr Marinis said.

People can also pump $100,000 – perhaps from an inheritance or investment property sale – of after-tax contributions each year into super. While there's no immediate deduction, it will stay in the low-tax super environment, and later a zerotax environment.

"You can start an income stream at 60 and everything's tax exempt," Mr Marinis said.

GOVERNMENT GIVEAWAYS

There are other lucrative government incentives, particularly for people on low and middle incomes.

JBS Financial Strategists CEO Jenny Brown said a key incentive was the super cocontribution, which rewards people putting extra into their super by adding a little extra from the government.

The maximum cocontribution of $500 is available to employees earning under $38,564 who put $1000 of their own after-tax money into super, while a reduced cocontribution is payable on incomes up to $53,564.

"For $1000 you put in, you can get $500," Ms Brown said.

She said another tax incentive was the spouse contribution, ideal for couples where one spouse earned less than $37,000 a year. It effectively gives the higherincome spouse $540 through a tax offset if they contribute $3000 to their partner's super. "That can help even up contributions," Ms Brown said.

Wotherspoon Wealth director Simon Wotherspoon said these government incentives were "better in your pocket than the government's".

EXAMINE INSURANCE

Most people hold some form of life insurance in super, and many hold multiple super funds with multiple life policies.

While this insurance can be valuable, each policy charges premiums that eat into nest eggs. "Understand what insurance you have," Mr Wotherspoon said. "Make sure you don't have double-ups.

"We often find clients come in with multiple super accounts and multiple insurance policies in place. They may offset one another when you go to claim, and it erodes your returns in the end." Only pay for life insurance you need.

CHOP YOUR FEES

Every dollar paid in fees to a super fund is a dollar not saved for your retirement.

Competition among funds has reduced fees, but Mr Marinis said the 3 per cent fees still charged by some super funds were way too high.

"You shouldn't be paying more than 1 to 1.25 per cent all inclusive, and if you shop around and do your homework you can do it for much less than that," he said.

"Clearly you want to keep the fees down as best you can, but don't just go for low cost if it's a low-performing fund.

"Our view is use index funds. Every year the statistics show that active fund managers have been blown out of the water by index funds."

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