eureka report

When is it Time to Stop Investing in Super?

Theo Marinis outlines why we should all invest in super, as soon as we can, as much as we can, for as long as we can.

By Theo Marinis
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We all know there are benefits to be gained by investing within the superannuation environment. Surprisingly few, however, realise that from 1 July 2021, a tax break of up to 24 per cent (based on the marginal tax rate applicable to taxable income of up to $180,000) is available on the maximum Concessional Contribution (CC) of $27,500.

In addition, from 1 July 2021, up to $330,000 can be contributed to super in ’after tax’ Non—Concessional Contributions (NCC) for those eligible to use the three year bring—forward rule.

The benefits are obvious. If your marginal tax rate is 39 per cent, you will pay just 15 per cent on the earnings, making it a 24 per cent ‘tax gift’ from the government (net of the 15 per cent contributions tax that the super fund pays).

If you contribute to super at the maximum CC of $27,500 per annum, you will save up to $6,600 in net tax every year. Compounded at a conservative 5 per cent per annum over a decade, twenty and thirty years, this will yield respectively, an extra $81,869, $205,999 and $394,207 which otherwise would have gone to the ATO.

In addition, you will have contributed a net $23,375 per annum into your super pool, which, compounded at 5 per cent per annum over a decade, twenty and thirty years, will grow respectively, to $289,951, $729,579 or $1,396,15O.

Nevertheless, many will still struggle to get their heads around contributing beyond the Super Guarantee (SG) level of approximately 10 per cent. If earning $150,000 per annum, they will be happy just to see this $15,000 put away by their employer, on their behalf. That may leave a $12,500 opportunity sitting on the table —an opportunity which would be significantly wasted.

For example, if you were to choose instead to invest those dollars not contributed to super in a share portfolio outside of the super environment, you would be buying fewer shares from after—tax dollars ($23,375 per annum net within super versus $16,775 per annum outside of super).

Furthermore, any proceeds on shares realised within the first 12 months will also be subject to Capital Gains Tax (CGT) at your personal tax rate of 39 per cent (or a personal CGT rate of 19.5 per cent if the shares have been held for more than 12 months).

However, for share proceeds realised within the first 12 months of purchase inside super, the CGT rate is 15 per cent, and 10 per cent if realised outside 12 months. In other words, you get to purchase more shares with your net CC inside super than your net salary outside super — that is, $23,375 per annum vs $16,637.50 per annum. I know what I would prefer.

In addition, due to the reduced CGT and tax rates on earnings inside super, you get to keep more of the income and capital gains received. The more you get to keep after tax, the more your portfolio benefits from compound interest.

Over the last 30—odd years, I've consistently heard the same complaints from people who do understand the benefits: "the government keeps changing the rules" and "superannuation is too complicated".

Both these statements are correct. But my counter argument remains the same.

Yes, super is complicated, and yes 'they' do keep changing the rules. But, like it or not, that is what governments do —and not just with super. As per this year's May 11 budget, we saw more super changes announced, which, if legislated, will actually help us contribute more to super, for longer.

As a case in point, here is a summary of the main super indexation changes to apply from 1 July 2021:

- Concessional super cap (CC) indexed to $27,500 (**inclusive** of ALL employer contributions such as Super Guarantee)
- Non—concessional super cap (NCC) indexed to $110,000
- Maximum 'Three Year Bring—Forward' rule cap indexed to $330,000
- Transfer balance cap indexed to $1.7m for new 'unrestricted non—preserved' Account Based Pensions commenced post 1 July 2021
- Total Super balance cap indexed to $1.7m for everyone.

Over time, the government will change the rules around superannuation to cap the massive tax—advantages. Nevertheless, super has still grown to the incredible $3 trillion sovereign wealth fund it is today. (Making super pensions 100 per cent tax exempt for those over 60 has also increased the tax advantages, but I will expand on this aspect in a future article).

In other words, the super rule changes will only cease if the government has eliminated all the tax benefits of investing in it, and we are nowhere near that point in time.

In the meantime:

- We should all invest in super, as soon as we can, as much as we can, for as long as we can; and
- The time to stop investing in super is when the rules stop changing!

When that happens, (despite being a big super nerd) I will be the first to let you know.

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