Concessional Super Contributions vs Mortgage Paydown:

What's the smarter move?

If you have some extra cash, you might be deciding whether to make a concessional contribution to your super fund or use it to pay down your mortgage, whether on your home or holiday house. Both strategies have advantages, but the right choice depends on your personal situation. Let's take a closer look at the options.

Option 1: Pay down your mortgage

Putting extra money towards your mortgage helps reduce non-deductible debt ie, debt carrying interest that isn't tax-deductible. This strategy can be particularly appealing if you value certainty or plan to free up cash flow soon. Key advantages include:

- **Guaranteed savings:** every extra dollar paid directly reduces your interest costs. For example, on a 5% loan, an additional $10,000 payment saves you $500 a year. This is essentially a risk-free 5% return.
- **Increased equity:** reducing your loan balance builds equity in your property, which can improve your financial flexibility if you need to borrow against it or decide to sell.
- **Improved cash flow and peace of mind:** with a smaller loan, your minimum repayments shrink, giving you more breathing room and financial security.

The downside is that unlike super contributions, there are no immediate tax benefits. Over the long term, investment returns from a well-diversified super portfolio often exceed typical mortgage interest rates.

Option 2: Concessional super contributions

Concessional super contributions, like salary sacrifice or personal deductible contributions, boost retirement savings and cut personal tax. They're especially appealing for people near retirement. Super may be partly or fully accessible after 60 at which time withdrawals are generally tax-free and can be used to repay loans whilst also having enjoyed a tax break on contributions. Key advantages include:

- **Tax benefits:** contributions are taxed at 15% in super (or 30% for some high-income earners), often below your marginal rate.
- **Long-term growth:** super investments in growth assets, plus a concessional tax rate of 15% on asset income in super, can significantly grow your retirement savings.

The downside is that funds are locked away until age 60 and are generally unavailable for emergencies. Market fluctuations, such as those seen recently, may also impact your superannuation savings.

continued overleaf ⇨

Concessional Super Contributions vs Mortgage Paydown... cont

Case study

Brian has $10,000 (after tax) of surplus cashflow each year. He is considering using this surplus cashflow to pay down his mortgage on a holiday home or making a personal deductible contribution to super. He is 55, plans to fully retire at 60 and is on the 39% tax bracket (including Medicare Levy). His mortgage is incurring interest at 5.6%.

Option 1: Pay down mortgage

If Brian makes an additional $10,000 one-off mortgage repayment each year for the next five years, he will have about $56,000 less debt than he would otherwise have. This reduction includes the interest that would have been accrued but for the reduction in the loan over the five years.

Option 2: Make concessional super contribution

If Brian can forgo $10,000 of after tax cashflow he can potentially make a personal deductible contribution of approximately $16,390 and be in the same after-tax cashflow position. As he is paying 39% tax, a $16,390 deductible super contribution will reduce his tax by $6,390 meaning his cashflow only reduces by $10,000 per annum.

Let's assume a net super contribution of $13,930 ($16,390 less 15% contributions tax) is invested each year into super for the next five years. Let's also assume his super grows at 5.6% net per annum. In this case Brian will have about $78,000 more in super than what he would otherwise have but for the deductible super contributions. After five years Brian is aged 60 and if he is also retired, he is free to withdraw any amount of super, tax-free, to pay down remaining debt.

THE VERDICT

Chat with us to find out which option suits you best. There is no one-size-fits-all answer. Paying down your mortgage offers security and peace of mind. Making extra concessional super contributions can deliver powerful tax benefits and long-term growth in retirement savings.

Whether you're focused on financial flexibility now or building wealth for later, we're here to help you weigh the pros and cons and make the most of your money. 💰