

The benefits of gearing property in super - compare the pair

Many people reeling from the previous few years of volatility in global financial markets are looking for different ways to invest their superannuation. This includes strong demand for bricks and mortar and the use of SMSFs to purchase direct property.

SMSFs can now borrow

Recent amendments to the Superannuation legislation, now permit superannuation funds to borrow. The legislation allows a SMSF to borrow money to acquire any asset which a SMSF is permitted by law to acquire directly, such as residential property.

COMPARE THE PAIR	BOB (aged 40)	SUE (aged 40)
Salary	\$80,000 (indexed until retirement)	\$80,000 (indexed until retirement)
Super Contributions	9% to employer default fund	9% to a self managed super fund
Amount of Contribution	\$7,200 pa indexed	\$7,200 pa indexed
Investment Choice	Balanced Managed Funds as per the employers default fund. This represents over 80% of Australians in the workforce.	Gearing into residential real estate through her self-managed super fund.
Super Balance at age 40	\$150,000	\$150,000
Value of Fund at age 60	\$885,188	\$2,070,722
Value of Fund at age 65	\$1,277,520	\$3,300,059
Lifestyle at age 60	Approx \$1,460	Approx \$3,425
Lifestyle at age 65	Approx \$2,110 per week	Approx \$5,458 per week

ASSUMPTIONS

Managed Funds

- Balanced Managed Funds returns based on the Russell ASX Investment Performance Report annual return for Balanced Managed Funds 10 years to 31 December 200. Annualised return calculated before the Global Financial Crisis (otherwise Sue had more than double Bob).
- Fees and charges associated with an industry fund assumed to be 1%
- Income tax and contributions tax of 15%
- Inflation rate of 2.9%

Residential Property

- Residential Real Estate growth based on Sydney top 500 suburbs average annual change in median price by RP Data Limited
- Rental Returns of 4.5% of property value
- Cost of purchasing property assumed to be 5% of purchase price
- Cost of holding property assumed to be 1% of value of the property
- Cost of running self managed super fund assumed to be 1% of the value of the property
- Sue acquires a property for \$350,000 with a loan of \$250,000 (i.e 71% loan to value ratio)
- Income Tax and Contributions Tax of 15%
- Inflation rate of 2.9%pa.

This example is intended to provide general advice only and has been prepared by InvestorOne Capital Pty Ltd without taking into account any particular persons objectives, financial situation or needs.

If you are interested in exploring the option of buying in super, contact Jodie Dickson today.

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