

What I Wish I'd Known ... Financial Advice for my Younger Self

#4 Why you should Salary Sacrifice while you're Young

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When it comes to making the most of superannuation, here's my advice: Do what you can, as early as you can, to take advantage of the tax-efficient savings environment that the Australian superannuation system offers. Whatever you do (or don't do) in relation to your super will be reflected in the lifestyle you will be able to afford when you retire. Find out more about an effective super strategy for professionals as it *may not be available to you later in life*.

The imminent reduction in the concessional super contributions cap (including both employer and pre-tax contributions and salary sacrifice) is likely to have significant consequences. This may affect Australians at a stage of life when many find they have the extra income available to contribute to their super, as the contributions cap may restrict their ability to do so.

With continuing changes to the rules associated with super, you should not assume that you will be able to rely on contributing large amounts to boost your super balance as you approach retirement.

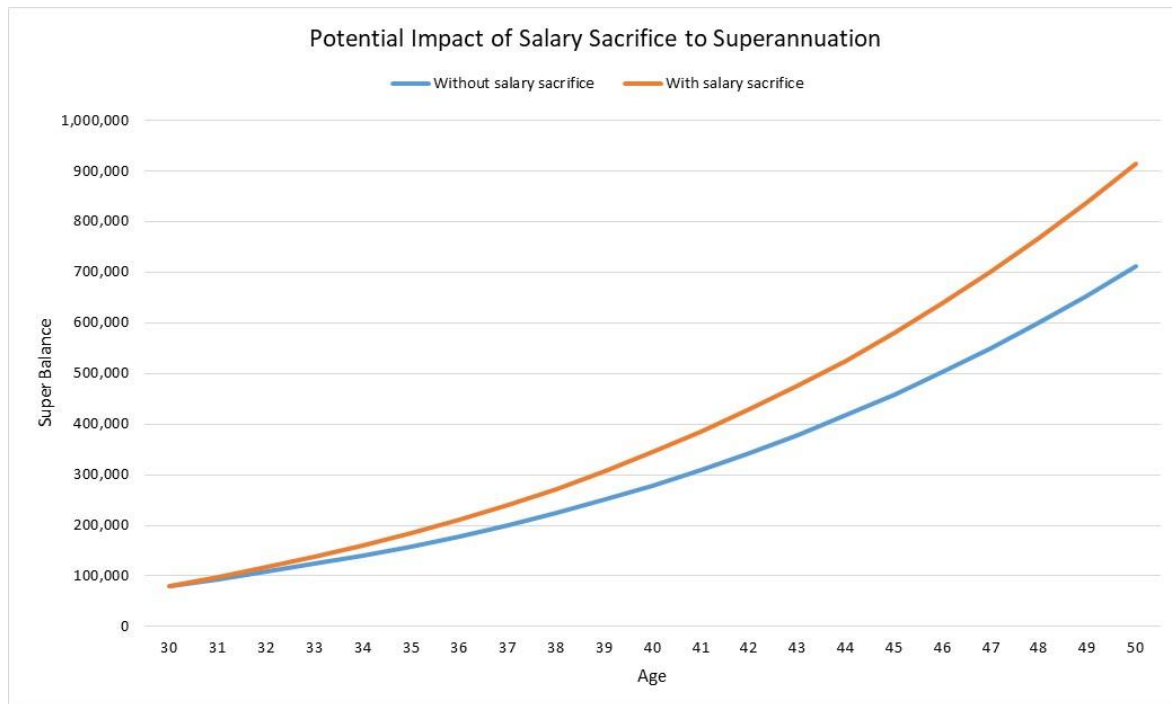
Salary sacrificing (or making tax deductible contributions) can be an effective strategy for building your super. This strategy redirects some of your pre-tax income into super where contributions are taxed by the super fund at 15% (the same rate as your employer's contributions), which is likely to be lower than your marginal tax rate. Note that if your income is above \$250,000 pa, you may be subject to an additional 15% contributions tax.

Starting salary sacrificing early and maintaining it throughout your working life may help build your super balance for your retirement.

Here's an example of how a young professional can use salary sacrificing to accumulate super for their retirement. Importantly, this strategy avoids relying on boosting their super savings through salary sacrificing significant sums from their salaries in the decade before their retirement.

Joe is a young professional with an annual salary of \$100,000. With a good income and few financial responsibilities, Joe can comfortably salary sacrifice \$5,000 each year. Compounded over 20 years or more, this will amount to very effective saving compared to.

If Joe is able to salary sacrifice \$5,000 pa throughout his working life, his super will grow to a level that may not be reached by salary sacrificing large amounts in the decade before retiring – please see the projection on the graph below. The main reason for this is that pre-tax super contributions may be restricted to amounts that won't have time to grow adequately before retirement.



Assumptions:

- Joe is 30 years of age
- Super balance at commencement \$80,000
- Joe's salary is indexed by Average Wage Ordinary Time Earnings (AWOTE)
- Joe salary sacrifices \$5,000 pa to superannuation
- The net total return in superannuation is 7.40% pa

Outcome:

- The difference in super balances by Joe making salary sacrifice contributions of \$5,000 pa is over \$200,000 in 20 years' time

Disclaimer: The above projection is for comparison purposes only and is not a guarantee. The projection is not intended to be your sole source of information when making a financial decision. You should consider whether you should seek advice from a licensed financial adviser before making any decision about salary sacrifice contributions to superannuation.

The dilemma

Many Australians expect or even rely on being able to increase their super contributions later in their working life, once the mortgage is under control or in the final years of children's schooling. Their aim is to boost their super balance in the ten or so years before they retire. This may seem a sound plan, but the limits to make tax-effective super contributions may restrict their ability to do so.

In summary

Seeking advice and implementing a salary sacrifice strategy early in your career can make a huge difference to your super balance when you retire. I urge young professionals to seek professional advice which considers planning for their retirement. Please contact me if I can help you or a young person in your life on (07) 3007 2007 or info@stratusfinancialgroup.com.au

What I Wish I'd Known – Financial Advice for my Younger Self

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[#3 A Most Important Financial Planning Tool](#) | [#4 An Effective Super Strategy for Professionals](#)

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