> FINANCIAL SNAPSHOT

Name: Eva Doerrmann
Age: 47
Occupation: Judge's associate
Salary: $58,000 plus super

> Assets
Property: $440,000
Investments: $25,000 (shares)
Cash: $30,000
Super: $38,000

> Liabilities
Mortgage: $180,000

> The average week
After tax income: $800

Expenses: $540 (including weekly minimum mortgage payment of $280)

Pay into super or the mortgage? That's the $180,000 question

Boosting retirement coffers is tough when the house isn't paid off, **Janet de Silva** writes.

ALTHOUGH she is at least another decade from retirement, Eva Doerrmann is already worried about having enough to live on when she stops work.

Working full-time as a judge's associate, the 47-year-old enjoys her work and has no plans to retire early.

"I'm happy to work for another 10 to 15 years but even then I'm a bit concerned that my superannuation nest egg won't be adequate," she says.

The dilemma for Eva is whether to reduce her home mortgage of $180,000 by making extra payments, or contribute more towards her superannuation, currently worth about $38,000.

Eva owns a small parcel of shares, which she purchased a few years back, and wonders if she should sell these to help pay off the mortgage.

Living at home with her "hopefully soon" to be financially independent 19-year-old, Eva would like to pay off her mortgage in 10 years.

Can she achieve this and still have enough money to live comfortably and top up her super?

Eva says she would also like to travel overseas in the years ahead. "I'd really like to do more travelling if I can afford it".

Finally, a curly question for our panel of advisers: if Eva's retirement kitty is inadequate, will she be able to rely on a part government pension to top up her income?

"How likely is it that there will still be a pension for people of my generation?" she asks.

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In 15 years you could have a yearly tax-free income of $26,600

Kevin Bailey
Money Managers

THE assets test for the age pension will be relaxed from September 20, 2007. Many more people will qualify but it is hard to know the criteria in the future so it's important to be as self-funded as possible and use the pension only as a top-up.

Our recommendation to Eva is to clear the mortgage, then to salary sacrifice to super until retirement in 10-15 years.

With discipline you could clear your mortgage quickly. A redraw or offset facility with your mortgage could cover one-off expenses such as holidays. You could consider transferring your shares and $20,000 cash to the mortgage, while retaining $10,000 in the offset account.

You could consider increasing your total mortgage repayments to $580 a week, which would still leave you with $220 a week for other living expenses(slightly less than now).

Assuming an interest rate of 8 per cent, your mortgage would be cleared in just under six years, instead of the current estimate of 16 years.

In five years, your salary could increase with inflation to $67,000 and the mortgage would only be $24,000.

Once the mortgage is paid off, salary sacrifice $42,000 each year to superannuation and use the remaining $25,000 a year to cover living expenses.

In 10 years time, your salary could have increased to $78,000 and you will have no mortgage. Your superannuation should have grown to $345,000 with the salary sacrifice, if you invest in a fund that has grown by 3 per cent above inflation.

In 15 years time, your superannuation should have grown to $665,000 to provide a minimum income of $26,600 a year tax-free in retirement.

Reducing personal debt needs to be your top priority

Canna Campbell
St George Bank

YOUR superannuation is definitely under-funded for your age and needs attention. However, your first priority should be to reduce your mortgage, which is considered personal debt and does not provide any income or tax deductions.

Use any spare cash to reduce this debt as you will save interest and time, taking you closer to being debt free. You may also want to sell your shares and put the proceeds into your mortgage, but you will need to be aware of capital gains tax, so see your accountant beforehand.

Once your mortgage has been extinguished, look to increase the superannuation contributions by the equivalent amount of your mortgage repayments.

You might choose to do this through salary sacrificing, which will save you some income tax and help build your super with your existing employer contributions.

After age 55, you could consider a transitional retirement strategy. This involves drawing a tax-effective income stream through an allocated pension and salary sacrificing part or all of your income back into superannuation. While your assets are in the allocated pension phase, there is no tax on income or capital gains, so your funds should last longer.

Additionally, you may be eligible for the Federal Government's co-contribution scheme, which gives you up to $1500 each financial year for additional personal contributions of up to $1000.

Depending on how much you have in superannuation, you may be entitled to a full or part age pension by the time you reach age pension age (65). This should help supplement any income you are drawing from your allocated pension.

Set a budget to keep your expenses under control.

Try a four-pronged attack on balancing the retirement books

Paul Moran
Cameron Walshe

ANYONE can throw a ball in the air and catch it – but jugglers have to manage more than one thing at a time. Think you can juggle four balls at once?

Ball 1: paying $320 a week to your mortgage and increasing this by at least $10 a week each year should get the loan paid off well before retirement. This should still leave you with an income surplus of about $200 a week. I am not in favour of paying everything in to the home loan at the expense of other goals.

Ball 2: allocate $50 per week of this surplus to a high-yield savings account called your "overseas trip account". This will provide you with $5200 every two years for some well-earned holidays.

Ball 3: your super will grow to somewhere around $250,000 over the next 15 years (about $160,000 in today's dollars) provided you invest in a growth option. Salary sacrificing an extra 10 per cent of your income to super will only cost you $76 a week in take-home pay, but will add about $150,000 to your retirement savings.

Ball 4: you might consider selling your shares and transferring the balance to a share option within your super fund – but make sure you get specific advice to understand any tax implications.

After all of this, you will retire with both a nest egg and a substantial asset in your property. If you need to, you could consider a progressively drawn reverse mortgage to supplement your age pension and superannuation pension. Withdrawing 1-2 per cent of the home value per year (about $5,000-$10,000) won't have too much of an impact on what you leave behind, and should give you a nice retirement.