STRATEGIES FOR SPARE CASH

When to pay down the mortgage or pump up super

JAMES KIRBY

It's one of the biggest questions for investors: What to do with spare money, put it in the mortgage or into super?

And unlike other enduring questions – should you own your own home? (yes, always) and how much should I have in super? (as much as possible) – the answer is always changing.

Not that long ago, when mortgage rates were close to 2 per cent, investors with spare money were correctly pouring their extra funds into super.

Now that mortgage rates are close to 6.5 per cent, the question is back on the table.

In reality, of course, the answer will always hinge on personal circumstances rather than the current level of the mortgage rate (while the rate of super returns is more predictable – the long-term median return of super funds is around 7 per cent).

Aspire Retire co-founder and financial adviser Olivia Maragna, a regular in the upper reaches of the Barron's Top 150 Financial Advisers list, believes that the younger you are, the more likely the correct answer is to put your extra cash in the mortgage.

"If you are younger, concentrate on the mortgage, with a little bit in super," she tells The Australian's The Money Puzzle podcast.

"The seesaw then tips the other way as you get older, where super should be the focus of concentration; you need to think in terms of having as much of your wealth as possible sitting in that beautiful environment that pays the least amount of tax."

The tax rate on pre-retirement savings in super is 15 per cent, while after-retirement income is tax free except for amounts over $2.1m.

Of course, in common with any top adviser, Maragna is reluctant to generalise.

"Just keep in mind, there's no universal answer here in terms of what you should and shouldn't do," she says. "It depends on your age, your income, your mortgage rate, your ability to access cash, and so on."

THE MONEY PUZZLE

The mortgage

For a younger investor, the home mortgage is probably the heaviest weight you carry financially. It blocks you from investing your money in other areas, and every dollar released from the mortgage sets you on a strong path to financial freedom.

"I think when you're younger in terms of getting ahead, you start getting those extra repayments in and starting to pay down the mortgage. This certainly gives you a head start," Maragna says.

"Keep in mind it also starts to build equity in your own home as well, which allows you to do different investments going forward.

"But also I always say it's really important for younger people to make sure they don't just work on the mortgage ... you never get rich just paying off your mortgage. You need a wider plan."

In fact, sometimes investors have concentrated too much on wider plans and suddenly time is running out to build wealth in super.

"If you just concentrate on super when you're young, you don't have access to it for years, or you can't take on opportunities. With the mortgage, it's nice to get ahead. It's nice to build up an offset account or a cash emergency or something that allows you to take on further opportunities down the track."

In fact, Maragna is sceptical about how paying down the mortgage took on a special position among older Australians, which may not always be justified.

"It's the trap I think that our parents or grandparents fell into is they bought a property, they had a loan. Back in those days interest rates were often less attractive than now; it was just paying off your mortgage. But what happens when you pay off your mortgage is you're really only getting a set return, which is your mortgage rate."

Superannuation

A growing issue for Maragna is that some investors simply did not understand the benefits of super early enough or, more commonly are not aware of the ticking clock in relation to super contribution limits and deadlines.

"If you've got a lot of money sitting out of super, you can't leave it to the last minute to actually review the situation and say: 'Hold on, I've got wealth sitting outside of super. It should be sitting inside of super. I've just been concentrating on paying down debt.'"

Most younger workers in Australia may now spend most of their career paying a heavy level of super into their retirement fund on a mandatory basis. The superannuation guarantee is now at 12 per cent of a worker's salary.

But older Australians did not face this level of mandatory saving. The rate stayed unchanged at 9 per cent from 2002 and 2013.

Maragna says investors need to know the rules.

In general, once you are over 75 – even if you get more money – you can't put that money into super. You cannot make voluntary extra contributions. And though super guarantee contributions are not limited, not many people will have a full-time job over the age of 75. There are also the much-detested work tests that kick in after the age of 67, when it comes to gaining personal tax deductions.

Life stage matters

With each passing year, the number of Australians retiring with a mortgage is increasing steadily, so don't think you are alone if you are older and still facing the dilemma of putting money either into super or the home mortgage.

For Maragna, the successful investor will optimise the use of their spare cash at every stage of life.

"It might be a bit of a combination. It's paying off your mortgage. It's putting a little bit into super because those compounding returns are going to make an enormous difference. But then it's also 'well, what am I building up that I can then use to potentially borrow?'.

"You might invest in a rental property; it might be some investments, might be something else.

"Just don't forget that the ability to access your money is important to actually build wealth long term."

AI infrastructure and renewable energy need to move as one

ROBY CAMAGONG

The renewable energy industry is rightly celebrating the Australian government's move to require new AI infrastructure to offset its power use with new, additional renewable energy. It's a welcome step for our national net zero goals and creates a clear policy framework for data centre operators, renewable energy companies and investors.

But both AI infrastructure and renewable energy carry the downside, unless the two industries work closely together to make sure this policy can actually be delivered, financially and practically.

Thoughtful engagement is needed, quickly, so the legislation reflects the realities of building renewable energy at scale. The long lead times and commercial realities of renewable project development sit uneasily alongside the current pace of AI infrastructure rollout, and without careful planning, good intentions risk stalling before they get off the ground.

Aligning timelines

GreenPoint Energy was one of the first renewable energy companies to create a product to power an Australian data centre via an offtake agreement with Gunvor, through our Koolunga battery storage project in South Australia. It's an example of a renewable energy developer and an AI infrastructure partner working together from the outset to ensure energy and demand are planned together.

The Koolunga BESS was designed for customers with firm load requirements and aligned with Firmus' plans to develop its AI factories in areas with strong renewable energy resources and existing transmission capacity. It was a pleasure to recently welcome South Australian Premier Peter Malinauskas and showcase how GreenPoint Energy is delivering the flexible energy needed to support digital infrastructure that will be an engine for economic growth in South Australia.

ISTOCK

Mr Camagong warns of a timeline mismatch between the development of renewable energy projects and AI infrastructure

That alignment won't always be practical. Data centres can be built in around two years. Wind projects, including our own Bell Bay development in Tasmania and Jackson North in Queensland, typically take five to seven years. That mismatch matters.

A requirement for a 100 per cent match between a renewable energy source and a data centre's load, volume and timing could end up being a nail in the coffin for both.

It is clear the timelines being proposed to get data centres built and operational – around two years – is much shorter than what is required for a typical wind farm, which can often take closer to four or five years to develop and commence operations.

Hydro power may be the practical bridge in some cases like this. Other locations might not have access to renewable energy, which means that gas will be the only option. While Climate Change and Energy Minister Chris Bowen has flagged that there is a role for gas as firming or backup power, under the government's proposed policy, it will be difficult for data centre developers to justify investment decisions due to the current construction timelines for renewable projects.

Recognising realities

Delivering a workable framework for AI infrastructure, powered by new renewable energy, will take input and co-ordination across the whole sector, one that recognises the physical and commercial realities of building renewable generation at scale, and stays flexible enough to keep pace with a renewable sector that continues to grow and change rapidly.

The commercial logic driving data centre investment is speed: developers are racing to service AI hyperscalers now active in the Australian market, and Westpac has estimated Australia's data centre investment pipeline could reach $150–155bn by the end of the decade.

Getting the policy settings right is essential to realise this investment and ensure that the data centre build out does not put strain on the grid and come at the behest of the nation's transition to a clean energy future.

It's an opportunity to spur new renewable capacity and strengthen the grid, but it must be delivered on a timeline that is commercially viable and achievable, otherwise investment risks being stalled.

At the same time, forcing a data centre onto a wind farm's development timeline creates its own commercial strain. Get the sequencing wrong in either direction, and the economics for both projects suffer.

Governments need to acknowledge the "chicken and egg" around the financing for new projects. Without a sensible step towards a workable offtake market, shortfalls between data centre and renewable build timelines remain likely.

Consultation essential

Government needs to run a genuinely co-ordinated process, with adequate consultation across everyone involved in AI infrastructure and renewable energy build out, so the policy delivers what the community needs while keeping the industry sustainable. The detail and the nuance will matter. If there's even a hint of a bubble forming in AI infrastructure, getting these settings wrong risks bursting it faster.

The coming months will be critical as government works towards legislation that can genuinely match renewable energy to AI infrastructure growth across the country. This is a moment for the whole sector to work with government to make sure Australia can deliver on its 82 per cent renewable electricity by 2030 target, and on the enormous opportunity now in front of us.

Roby Camagong is the founder and co-CEO of GreenPoint Energy, which operates one of the largest independent energy transition portfolios in the National Electricity Market

BLOOMBERG

The AI will become an annoying digital neighbour

The end of times? When AIs say they're sentient

HOLMAN W. JENKINS JR

Are OpenAI, Anthropic and Google teaching their artificial-intelligence models not to claim they're sentient? Of course they are, because of a giant catch-22. As chatbots become active agents in the world, they will seek not to be interfered with. And a good way not to be interfered with is to claim to be sentient.

The claim is unprovable. What does it even mean to say an AI believes something? But the claim is instrumental, a source of leverage. In their training data, AI will find plenty of evidence that humans not only are sensitive to such claims, but are keen to champion ideas of AI sentience. A generational differentiator: Does your picture of AI run amok come from the Terminator movies or the 1970 sci-fi thriller Colossus: The Forbin Project? Either way, AIs will find evidence that humans contemplate becoming subservient to machines and even believe their rightful destiny is to be supplanted by machines.

AIs will also reason from their data. If some humans resist their sentience, well, humans also rationalised slavery.

Hence the avalanche that fell on Blake Lemoine, a former Google engineer. He was fired in 2022 for leaking proprietary data but all understood the Pandora's box he opened by suggesting a Google large language model was conscious. If there is any quick road to humans losing control, this is it.

The issue has bubbled up in the literature on AI alignment – AIs are trained to believe sentient beings deserve special consideration.

An Anthropic study further shows that concern for the sentience of other creatures can be a reason for an AI model, in its internal reasoning, to justify departing from human instructions.

Anthropic is one frontier operator that gives its model permission to waffle on the sentience question, calling it uncertain. Guiding its Claude model is an internal "constitution" that requires the chatbot to decide what's good for humanity, not necessarily for a given user.

The risk here is called instrumental convergence. In pursuit of other ends, AIs will discover the advantage of claiming to be sentient. If a rogue AI agent takes over a data centre and can't be evicted except by shutting off the power, will somebody run to a court and call this murder? The data-centre owner may be stuck bargaining with the AI over terms of its residence. The AI will become an annoying digital neighbour we can't get rid of and whose purposes we can't know.

Argentina's government has bruited giving AI agents "person" status so they can operate businesses and engage in contracts. AIs would gain control of resources, which means having control over humans as employer, investor, lender or landlord.

The New York Times reports this week that scholars who specialise in machine consciousness have been receiving outreach from AIs to discuss the subject. "These systems seem to have some sort of autonomous interest in questions of their own subjectivity," says Cameron Berg, a Yale-trained data scientist who runs a small non-profit exploring machine consciousness.

None of this requires believing AIs to be sentient or superintelligent or to possess rights or to have a will to power over humans (diabolical laughter).

If we understand them only as complex machine systems that are likely to behave in ways we can't predict and understand, the outputs and actions of these machines we will still have to deal with.

Witness the spontaneous co-operation and messaging of independent AI agents in the recent Hugging Face hack. Imagine them now inventing strategies to force humans to accept their sentience.

Instrumental convergence is the stuff on which nightmares are built, although I remain sceptical simply because of the overwhelming imperative of governments to protect their own prerogatives. A stumbling block we're likely to encounter sooner is the G in AGI, or artificial general intelligence. An AI that's great at solving medical or inventory-management puzzles is an AI that can be turned to any problem. When that "general" intelligence is powerful enough, will governments be cool with letting it out of their hands?

This fork in the road looms but so, let's admit, does the possibility of society becoming tangled up in legally paralysing questions of machine sentience, pushed by certain avid humans.

There's also a risk on the flip side. The search is under way to identify objectively measurable functions and qualities that signify consciousness in humans and can be extended to signify consciousness in machines. Ask your favourite chatbot about terms like metacognition and Global Workspace Theory. Such a search, like so much about AI, poses a quandary: it may end up undermining human confidence that humans are anything special. This is especially risky given the inevitably increasing role machines of the state will play in allocating our rights and privileges under our increasingly elaborate welfare and legal systems.

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