Superannuation 101 (Part 1)

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AS OF JUNE 2021, superannuation assets totalled $3.3 trillion. In 2018, Australia became the country with the 4th largest pension assets in the world.

The genesis of superannuation goes back to 1992 when under the Keating Labour Government, a compulsory employer contribution was introduced. When introduced, the Employer Super Guarantee Contribution (SGC) was 3% (or 4% for employers with turnover over $1mn). Australia was at the cusp of an ageing population that had retired and were living longer. The government funding would not be sufficient to support their income needs and so there was a need to create a self-funded retirement mechanism and hence superannuation was introduced for Australians.

Most Australians that have worked, or are working, would have a superannuation account (or more) and their super is often their largest retirement funding asset. In the next series of articles, we will talk about some of the rules and factors when considering Super. Lets begin with two basic types of contributions and limits. Please note these limits below are subject to restrictions based on age, work status, and total super balance.

Concessional Contributions

These contributions to super are subject to a contributions tax rate of 15%. Your employer contribution is included in this. Salary sacrifice, personal concessional contributions (where you claim a tax deduction on the amount contributed) are all "concessional contributions." These contributions are concessionally taxed (at 15%) within the super fund, as opposed to being charged at your marginal tax rate. However, this contribution is restricted to $27,500 for the 2021/22 Financial Year ($25,000 last year).

Non-Concessional Contributions

Any contributions over and above the $27,500 in a year of concessional contributions are called non-concessional contributions. In a given financial year the non-concessional contribution is restricted to $110,000 ($100,000 in 2020/21 Financial Year) or alternately you could contribute up to $330,000 by bringing forward the contributions from 2 following years (noting no further non-concessional contributions can be made until the next 2 years are over).

Whilst both above, allow one to transfer funds to super, you need to assess which is the more appropriate contribution for you, for instance, is the focus current tax consideration or minimising estate taxes in the future. Please note, subject to certain conditions, funds in your super may not be accessible.

In the next instalment, we will discuss some of the benefits and indeed considerations when evaluating super contributions.

Please contact your financial adviser to discuss before making any decision around your superannuation.

Disclaimer: This is the first part of the 'Superannuation 101' Series, originally due for publication in Oct 2021 but was missed.