Super Activity 2

Years 7-10

WHERE DOES SUPER MONEY COME FROM?

Fact sheet

How can you ensure financial wellbeing when you retire? Discover the various ways your super can grow.

THE SUPER GUARANTEE

Superannuation can grow through funds that come from:

- an employer
- government super contributions
- voluntary contribution
- salary sacrifice.

Employers

Currently Australian employers must by law contribute 9.5% of an eligible employee's ordinary time earnings into a super fund. This contribution is called the superannuation guarantee.

Ordinary time earnings are what you generally earn for ordinary hours of work, including over-award payments, bonuses, allowances and some paid leave. Overtime is not included. For example, if your **ordinary time earnings** are $15,000 per quarter (three-monthly), your employer must pay $1,425 into your super fund. This amount must come directly from your employer, not from your gross salary.

Who is eligible for a super guarantee contribution?

Your employer must make **super guarantee** payments on your behalf unless:

- you are under 18 years old and do 30 hours or less of work per week for the employer
- you are paid less than $450 (before tax) in a calendar month from the employer
- the work is of a domestic or private nature, for example as a part-time babysitter or nanny, and is 30 hours or less per week.

Even if you are employed on a casual or part-time basis, you may still be eligible for super guarantee contributions by your employer.

Self-employed people

Super is not compulsory for self-employed people, although many do make contributions.

When must super be paid?

Employers must pay super guarantee contributions into a super fund at least every three months. They have 28 days after the end of each quarter to make the payment. Previously, this payment was made annually. The quarterly payment requirement has been designed to ensure contributions are invested as soon as possible and to give employees earlier opportunity to check their employer is making the correct contributions for them.

The ATO imposes significant penalties, to encourage employers to meet their obligations. If an employer doesn't pay an employee's super on time and to the right fund, they may have to pay the superannuation guarantee charge. This is interest on the outstanding amount (currently 10%), an administration fee ($20 per employee, per quarter) as well as the outstanding amount of super.

There are two types of contributions to super:

- ***Concessional*** – which are contributed before tax. These come from your employer and are not taxed before being contributed to super, but are taxed after the contribution is in your super fund at 15% .
- ***Non-concessional*** – which are contributed into super after being taxed. They are not subject to be taxed again when put into super. Types of after-tax contributions include:
  - contributions an employer makes from an employee's after-tax income
  - contributions a spouse makes to a super fund
  - some personal contributions.

There is an annual cap on concessional and non-concessional contributions. If you contribute beyond the cap, the excess will be added back to your tax return and taxed at your marginal tax rates. These caps may change from time to time so it is important to keep aware of the rules and manage your contributions wisely.

To learn more about adding to your super, go to **www.ato.gov.au and search for 'personal super contributions'**

Australian Government
Australian Taxation Office

EXTRA CONTRIBUTIONS TO SUPER

If you want to retire comfortably, your employer's 9.5% super guarantee contributions may not be enough to build the lifestyle you want for retirement. By making extra contributions, you will boost the amount of super you have when you stop working. The key is to start as soon as possible so you can relax later.

Many Australians save more in super than the required amount in the following ways:

- Some employers choose to contribute more than 9.5% for their employees as a form of added benefit.
- Employees may choose to personally contribute extra money into super from their after-tax income or pay.
- Employees may salary sacrifice super contributions.
- Some people are eligible for the Australian Government super contribution.

Personal super contributions

Employees can boost their super by adding their own contributions to their super fund or into their spouse's super fund. Personal super contributions are the amounts contributed to their super fund from after-tax income (that is, from their take-home pay), so it is not taxed again unless they exceed the cap.

If a person is not working and under 65, he or she can also make personal after-tax contributions to their super fund.

Salary sacrifice

Salary sacrifice is an arrangement between an employee and their employer to forego part of their salary or wages in return for the employer providing benefits of a similar value. One example of a salary sacrifice arrangement is to have some of the salary or wages paid into an employee's super fund instead of to the employee.

When super contributions are made through a salary sacrifice agreement, these contributions are taxed in the super fund at a maximum rate of 15%. Generally, this tax rate is less than the marginal tax rate and the sacrificed part of the total salary package is not counted as assessable income for tax purposes.

The Australian government super contributions

A co-contribution from the Australian government is designed to help eligible people boost their retirement savings.

If you are a low or middle-income earner and you make a personal (after-tax) contribution to your super fund, the government also makes a contribution (called a super co-contribution) up to a maximum amount of $500. The amount of government super co-contribution you receive depends on your income and how much you contribute.

The ATO will work out if you are eligible for a super co-contribution when you lodge your tax return. If the super fund has your tax file number (TFN), the ATO will pay the government co-contribution to your super account automatically.

Some low or middle income earners might also be eligible for the low income super income tax offset (LISTO). When an employer makes a super guarantee contribution to an employee's super account, the Australian government may make a LISTO payment which equals 15% of the contributions.

RETIREMENT AND SUPER

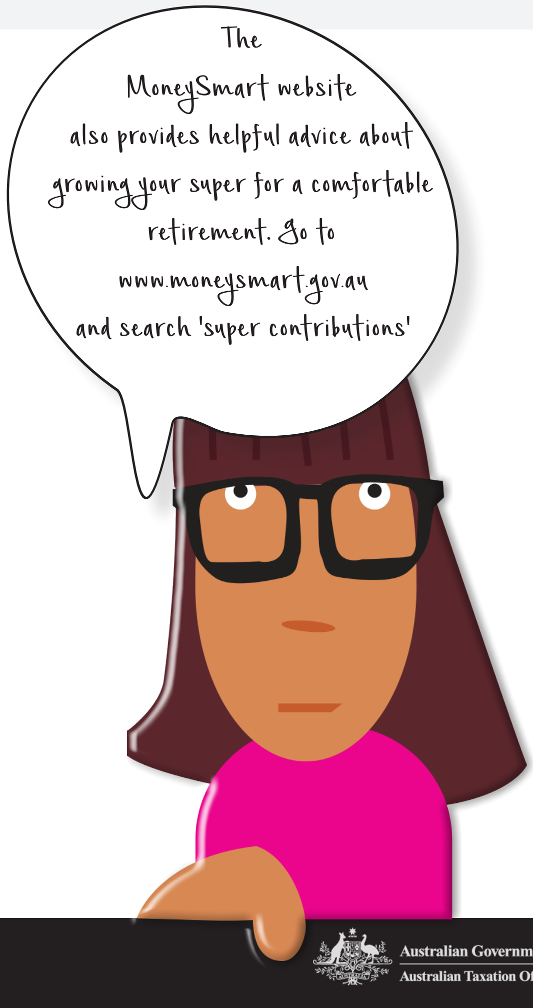
Generally, you will not be able to access your super until you reach your earliest retirement age, which is called your 'preservation age'. The preservation age is 60 for anyone born after 30 June 1964.

There are only a few other circumstances in which a person may be able to access their super before retirement. These include severe financial hardship, compassionate grounds, a terminal medical condition, and permanent incapacity.

Once you become eligible to access your super, you have three options:

- take it all as a lump sum
- invest it in a superannuation pension or annuity that provides you with a regular income stream
- do a combination of both depending on the rules of the fund.

Given that many people live 20 to 30 years in retirement, it is important that your super lasts as long as possible.



Super Activity 2: Where does my super money come from? Years 7-10

TASK 1 MY EMPLOYER, ME AND SUPER CONTRIBUTIONS

Worksheet

YOU WILL:

- interpret information and make calculations to answer super contribution questions

YOU WILL NEED:

- *Fact sheet: Where does my super money come from?*
- *Answer sheet: Task 1 — My employer, me and super contributions*

INTERPRET SCENARIO

Frankie and Sarah want to know more about their superannuation. They know that their employer, BeachCrazi, should make a super guarantee contribution on their behalf. Read the three scenarios below and provide answers for their questions.

Scenario 1: Frankie

Frankie, aged 25, is employed part-time (33 hours per week) in the office as an administration assistant grade 1. He is responsible for sending out invoices and preparing sales records. His pay is $825 per week before tax. Frankie also gets a weekly allowance of $15 because he has been trained to use certain programs.

Answer Frankie's questions

1. Does the company need to contribute to my super?

2. Why do you think this?

3. If the company must pay my super, how much super should BeachCrazi contribute over three months (13 weeks). Show me your calculations.

Scenario 2: Sarah

Sarah, aged 30, is employed fulltime as a salesperson for BeachCrazi on a gross salary of $1,550 a week. She visits surf shops selling the company products. Since she began working for the company seven months ago, she has sold $200,000 worth of goods. The company gave her a bonus after six months for her hard work, which equalled 5% of her sales. After seven months, Sarah checked her super account and noticed there had been no deposits made in that time.

Answer Sarah's questions:

4. Does the company need to put money to my super?

5. Explain why you think this?

6. If the company must pay my super, how much super should have been contributed by BeachCrazi after my first three months (13 weeks) employment. Show me your calculations.

7. What do you think I should do about the missing super contributions?

Scenario 3: BeachCrazi

The ATO investigated Sarah's claim that BeachCrazi failed to pay her super. The ATO found that no super guarantee contributions were made after her first three months in the job plus 28 days, nor since. BeachCrazi admitted there was an administrative error when Sarah commenced her job. The ATO ordered BeachCrazi to pay all outstanding super guarantee contributions, plus interest and a penalty. Beachcrazi paid the outstanding fees nine months (39 weeks) after Sarah began employment with them.

Answer BeachCrazi's question:

8. How much money should our company deposit into Sarah's account in her ninth month (39th week) of employment? How much money should our company pay to the ATO in penalties and interest? Show me your calculations.