INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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Super guarantee rises to 10.5%

The increase to the superannuation guarantee (SG) rate from 2 July 2022 will see more employees (and certain contractors) entitled to additional SG contributions on their pay. But what happens when income earned before 30 June is paid after 30 June 2022 – will employees be entitled to the higher SG rate of 10.5%**.**

SG based on when an employee is paid

On the 1 July 2022, the SG rate increased for 10% to 10.5%. In some cases, an employee's pay period will cross over between June and July when the rate changes.

However, the percentage employers are required to apply is determined based on when the employee is paid, not when the income is earned. The rate of 10.5% will be applied after 1 July 2022, even if some or all of the pay period relates to is before 1 July 2022.

This means if the pay period ends on or before 30 June, but the pay date falls on or after 1 July, the 10.5% SG rate applies on those salary and wages. The date of the salary and wage payment determines the rate of SG payable, regardless of when the work was performed.

Example

Nicholas is an employee of ABC Pty Ltd. If Nicholas performed work:

- In June (or partly in June and partly in July) but he was paid in July, the SG rate is 10.5% on his entire payment and contributions totalling 10.5% of his ordinary time earnings for the September 2022 quarter must be made to his superannuation fund by 28 October.
- In July but was paid in advance (before 1 July), the SG rate is 10% and contributions totalling 10% of his ordinary time earnings for the June 2022 quarter must be made to his superannuation fund by 28 July.

SG rate will continue to rise

With Labor elected, employers should prepare for ongoing, annual increases to the SG rate over the coming years. The following already-legislated increased to 12% by 2025 will proceed as follows:

1: Estimates based on ATO Single Touch Payroll data for July 2019, provided to the Retirement Income Review, published in the Income Retirement Review – Final Report. Canberra: Commonwealth of Australia, 2020, pp 298,301

2: Ibid, pp 45, 300-301

Period	SG rate (%)
1 July 2015 – 30 June 2016	9.5
1 July 2016 – 30 June 2017	9.5
1 July 2017 – 30 June 2018	9.5
1 July 2018 – 30 June 2019	9.5
1 July 2019 – 30 June 2020	9.5
1 July 2020 – 30 June 2021	9.5
1 July 2021 – 30 June 2022	10
1 July 2022 – 30 June 2023	10.5
1 July 2023 – 30 June 2024	11
1 July 2024 – 30 June 2025	11.5
1 July 2025 onwards	12

Monthly $450 minimum threshold removed

A further change to the SG rules is that from 1 July 2022, the $450 per month minimum SG income threshold has been repealed. This means that employers will be required to make quarterly SG contributions on behalf of low-income employees earning less then $450 per month (unless another SG exemption applies).

Prior to 1 July 2022, an employer was not required to pay SG contributions for an employee who earned less than $450 per month.

This change is estimated to benefit approximately 300, 000 people or 3% of employees, who are mainly young and/or lower-income and part-time workers, where around 63% are female. These changes will help these workers to start accumulating superannuation earlier as well as help address the gap in superannuation savings between women and men.
Source: Butler Settineri

Emergency fund: What it is and how to build it fast

Could you cope if you needed instant access to money during an emergency? Learn simple ways to create savings for times when life throws you a curve ball.

Many expenses and changes in life can be planned, like buying a house, going on holiday, picking up groceries or having a baby. But there can be plenty of unforeseen changes as well, including job losses, shock bills, broken-down cars and illness. The good news is that you don't have to get into debt of unplanned situations arise.

Follow these simple actions to create an emergency fund for that rainy day, and take another step towards financial peace of mind.

1: Assess your total income
Before calculating how much you can afford to put into your emergency fund, you'll need to evaluate just how much money you have now, plus what's coming in. This might be straightforward if you have a regular pay cheque, but if your income is sporadic or ad-hoc, it might need a bit more working out. Don't forget to include any expected income from shares or interest from existing savings accounts. And, while you're thinking about money, consider other immediate revenue streams – like selling unwanted stuff you have lying around the house.

2: Work out what you spend
Just where does your money go every month? Think about all the bills you pay (rent or home loan, mobile phone, internet, utilities, insurance etc),any memberships you have, transport costs, how much you spend on groceries and personal care. Many of these expenses are essential, but you may have some non-essential expenses as well: eating out, entertainment, buying unnecessary clothes, having three takeaway coffees a day…. You can keep track of your expenses using tools like the **AMP Budget Planner Calculator**, it makes this process much easier and helps you re-evaluate your savings goals down the track.

3: Set a goal for your emergency fund
How much money do you want to have in your emergency fund, and how soon do you want it? Figures quoted by experts can vary widely, with some suggesting you should have enough to cover three to six months of your expenses, whereas others recommend at least a year of your income. All agree on getting started – having something in your emergency fund, even a few hundred dollars, is better than nothing. So, set a goal that's achievable and realistic, and not so daunting that it'll prevent you from even getting started.

4: Plan how you'll do it
Once you know how much you want to save, you need to work out how to get there. Saving for your emergency fund should take into account your income and savings goals, and then look at all the ways you can cut back on your expenses. This is where you need to be ruthless, slashing unnecessary spending, i.e., your wants, as opposed to your needs.

Let's say you want to save $2,000 in six months: that's about $330.00 a month, or around $11.00 a day. Go through your spreadsheet of expenses and look at all the areas that can be tightened or eliminated completely to make this goal achievable. You'll find most are the non-essential expenses listed above, but you can also save money by talking to suppliers, like your electricity, water and gas suppliers and mobile phone provider to negotiate better plans.

5: Get cracking

Your emergency fund is just that – a safety net. It's not a chunk of money for planned everyday expenses or a holiday you want to take (that's what your savings account is for), so you shouldn't touch it until you need it.

To help avoid temptation of dipping into it, you can create a specific account for your emergency fund. Choosing an account with high interest can mean you'll be financially rewarded for contributing to it. And opt-out of having a linked debit card, to remove easy access temptations. Set up an automatic transfer of cash from your primary account on a set day every month (like the day you get paid) and then just forget about it. This way, you don't even have to think about your emergency fund, but it will be accessible when you truly need it. Source: AMP Insights

Could a family dispute erupt over your will, or lack of one?

If you haven't made your wishes known, let alone formally documented what these are, it's possible. Check out what to consider sooner rather than later.

The thought of dying isn't a pleasant one, which is why considering how you'll distribute your assets after you've gone may be something you've always put off for another day.

While this is understandable, you also probably don't want inaction leading to family members becoming embroiled in a nasty inheritance dispute if you leave it too late.

On top of that, without a valid will, you run the risk of your estate being distributed according to state law, which may on align with what you had in mind either.

What Aussie seniors said on the matter of inheritance

Almost one in five seniors said in a survey they had concerns that their family would argue over their estate should they pass away, particularly in regard to property and money, with people feeling less worried there'd be arguments over sentimental items or things like cars and jewellery.

Among seniors, who were concerned that family members would argue over their estate upon their passing, about 70% were worried that disputes would negatively impact their family's relationships.

By far the most popular survey strategy to minimise the risk of families fighting over estates was drawing up a will that specified in writing how an estate would be distributed.

The benefits of documenting things formally

Drawing up a will allows you to document how you want your assets to be distributed after you die.

- This can help in the instance someone contests what you've said you want to happen if you're no longer around
- It could go a long way in preventing disputes from arising should family members be made to divide assets among themselves.
- You may also be able to improve tax consequences for your heirs. For instance, if they have to sell something they've inherited, depending on the asset, capital gains tax may be payable.

Things to consider and why communication can be beneficial

You may or may not want to distribute your assets evenly. You may have given cash advances to help people out earlier in life. There may be family members who are better off than others. There may be some getting assistance via other means, while others may be less likely to use the money wisely.

At the end of the day, how you want to distribute your assets will be up to you but communicating why you've made certain decisions could go a long way. Sure, it might be a hard pill to swallow, but not talking about it could cause far bigger feuds (and sadly to say, even legal battles) down the track.

Talking openly and honestly will hopefully help your family understand why you have made the decisions you've made and ensure everyone is on the same page.

How to formalise what you want to happen
A solicitor or estate planning lawyer can help you draw up a will that's legally binding. It's important this document is kept up to date to also ensure any changes to your situation (marriage, divorce, separation or otherwise) are accounted for, so those who matter most are taken care of.

While it's also possible to draw up your own will (there are various kits available online), these mightn't be adequate in complex situations, which is why engaging a professional may be worthwhile.

Other important things you may want to think about
Choose an executor to help carry out your wishes when you're gone.

Generally, an executor manages and distributes your estate with the assistance of your solicitor, according to the terms you have set out in your will (which your solicitor should have a copy of).

When you nominate an executor in your will it's important to let your family know and make sure the person you've appointed knows their duties and where your will and other important documents are kept. You may also want to let your family know where this information is stored.

The executor will typically be responsible for things like making funeral arrangements, ensuring your debts are paid and bank accounts closed, and any life insurance collected. They'll also need to apply to the court for probate, which is a legal step that is required before your estate can be distributed.

Review your nominated beneficiaries or any super or insurance you might have
You might assume that how and in what proportions you want your superannuation to be distributed can be included in your will, but this isn't necessarily the case unless you've specified certain arrangements with your super fund beforehand.

With that in mind, it may be a good idea to nominate your beneficiaries with your super fund and to make sure you're across how long different nominations are valid for. If you don't make a nomination, your super money may end up somewhere you wish it didn't.

In addition, if you have insurance outside of super, you may want to ensure that you've listed your beneficiaries on your insurance policy and that those beneficiaries are also kept up to date.

Consider appointing an enduring power of attorney to make decisions if you can't
This person will make legal and financial decisions for you while you're alive, if you're ever unable to.

For this reason, it's important to choose someone you trust, as they'll be responsible for looking after your bank accounts, ongoing bills, and even selling your house if you need to move into care facility.

Your will and broader estate plan can be a complex area. For this reason, please speak to a legal professional and your financial adviser.
Source: AMP insights

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