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Changes to your superannuation in 2022: what to expect

There are some significant changes to superannuation coming soon which should benefit a cross-section of the community, from those just starting out in their careers through to retirees. Many of the super reforms were announced in 2021 but will come into effect from 1 July 2022.

Some of the previously announced federal government measures may offer tax relief and, coupled with the right strategies, could have a positive impact on many Australians' retirement savings.

1. The Superannuation Guarantee will increase

The Superannuation Guarantee (SG) contribution that employers are required by law to pay into super is going to be 10.5% of a worker's ordinary time earnings from July, up from the current 10%.

The SG will increase by 0.5 percentage points each year until it hits 12% in 2025. The contribution is paid into individual super funds by employers to help employees grow their retirement savings.

2. The $450 earning threshold scrapped for the Superannuation Guarantee

Low-income earners and women will be the main beneficiaries after the minimum salary threshold of $450 a month for receiving the SG was abolished in legislation passed through Parliament in February.

From July, workers earning less than $450 a month before tax will be entitled to receive the compulsory SG payment from their employers.

This is expected to benefit an estimated 300,000 low-income earners, about 63% of whom are women. It should lead to improved retirement outcomes for women, low-income earners and people doing part-time work.

At this stage other eligibility requirements to receive the SG will still apply, such as needing to work more than 30 hours per week if you're under 18.

3. The First Home Super Saver Scheme gets a boost

The maximum amount of voluntary contributions made to super that can be released under the First Home Super Saver (FHSS) scheme will increase from $30,000 to $50,000.

Participants must be first-home buyers and have lived in the home for at least six months within 12 months of buying. The scheme can also reduce taxable income, as contributions come out of your pre-tax salary.

4. More people eligible for the downsizer contribution

For those who have found their principal residence has become too big to handle, as well as those dreaming of a sea change, tree change or apartment change, downsizer contributions may be of benefit.

Under the initiative, which suits retirees or pre-retirees, eligible people can use the proceeds from the sale of the family home in Australia to boost their super.

The eligibility age for downsizers to top up their super was already set to be reduced to 60 from 65, but as part of the election promises the age has been lowered further to 55. This means that some people could even see their retirement goals come into fruition earlier than previously planned.

Contributions max out at $300,000 for a single person and $600,000 for a couple.

The downsizing contributions policy allows people to use the proceeds from selling the family home to boost their super. There are some rules that apply – for example:

- you must have owned the home for at least 10 years prior to the sale
- the property you're selling must be located in Australia and cannot be a mobile home

- the contribution must be made within 90 days of receiving the money from the sale (which usually occurs at settlement)
- the contribution doesn't count towards the non-concessional cap.

5. The work test scrapped for some retirees

Those aged 67 to 74 will no longer need to meet the work test for salary-sacrifice or personal after-tax contributions.

People have generally been working longer, so it makes sense for the contribution age limits to also change. Currently, only people under 67 can contribute to super without satisfying a work test (though people aged 67 to 69 can make super and downsizer contributions without the work test).

As part of the reforms, the upper age limit will increase to allow people under 75 to make any type of contribution to super without satisfying a work test. This is a positive step as some people who are still active have been prevented from adding to their super for up to 10 years.

From July, people will be able to contribute extra savings or even funds received from an inheritance into super. Even for those who don't have much extra money to contribute, this may be a way to minimise potential tax to their estate.

It's important to know that there are caps that apply to contributions, and if you go over them you may have to pay extra tax. There is also the transfer balance cap – a limit to the total amount you can transfer into the pension phase of your super.

People may still need to meet the work test to claim a tax deduction for personal superannuation contributions.

6. More to benefit from the bring-forward rule

The bring-forward rule means that if contributions are made above the annual non-concessional contributions cap, people may be eligible to automatically gain access to two future year caps, meaning their total after-tax contributions in a single financial year can be up to three times the annual cap.

This could potentially allow people to make additional non-concessional contributions, without having to pay any extra tax.

Currently, people have to be under 67 to be eligible, but the age cap is being raised to under 75 from July 2022.

7. Cut to drawdown rates extended

There was only one industry-wide superannuation measure in the 2022-23 Budget and that related to the extension of the existing 50% reduction on minimum drawdown ratesfor account-based pensions and similar products for a further year until 30 June 2023.

The minimum drawdown requirements determine the minimum amount of a pension that a retiree must draw from their superannuation each year.

This change may be good for retirees who are looking for more flexibility to manage their income, as it could help them avoid selling investment assets in order to satisfy the minimum drawdown requirements.