

# Change is Coming to Australia's Retirement Contribution Scheme; Here's What Employers Should Know

---

*It's been seven years since employers with workers in Australia have dealt with an increase to the country's retirement contribution scheme, but a change set for 1 July will require firms to plan their approach and employee communication strategy.*

If you have employees based in Australia, you have probably heard of superannuation or “super” — Australia's compulsory retirement contribution scheme. Under the scheme, employers must make contributions of a legislated minimum percentage of their employees' [ordinary time earnings](#) (OTE) into approved superannuation funds (up to a [maximum contribution base](#)).

This legislated minimum percentage is known as the superannuation guarantee contribution (SGC) and has been sitting at 9.5% since 2014. With the SGC increasing to 10% from 1 July 2021, employers need to prepare for a change they haven't experienced in seven years.

## Why is super increasing now?

The SGC has increased many times since it was established in the 1990s, and this increase won't be the last. Superannuation is set to increase by 0.5% each year from 2021 until it reaches 12% in 2025.

Organisations can decide whether the increase is funded by the firm or comes out of employees' salaries. There is no legislative requirement around how pay is communicated to employees. Research conducted by Aon in 2020<sup>1</sup> found that 43% of organisations communicate a remuneration package or “total fixed” amount to employees, which includes base salary and super. Forty-one percent will communicate a “base plus” amount, where base salary is communicated separately to super. The remaining 15% of organisations use both approaches, differentiating by employee type. The table below illustrates how the same pay may be communicated in the two different ways:

---

<sup>1</sup> Aon's Superannuation Guarantee Increase Survey October 2020; refreshed May 2021

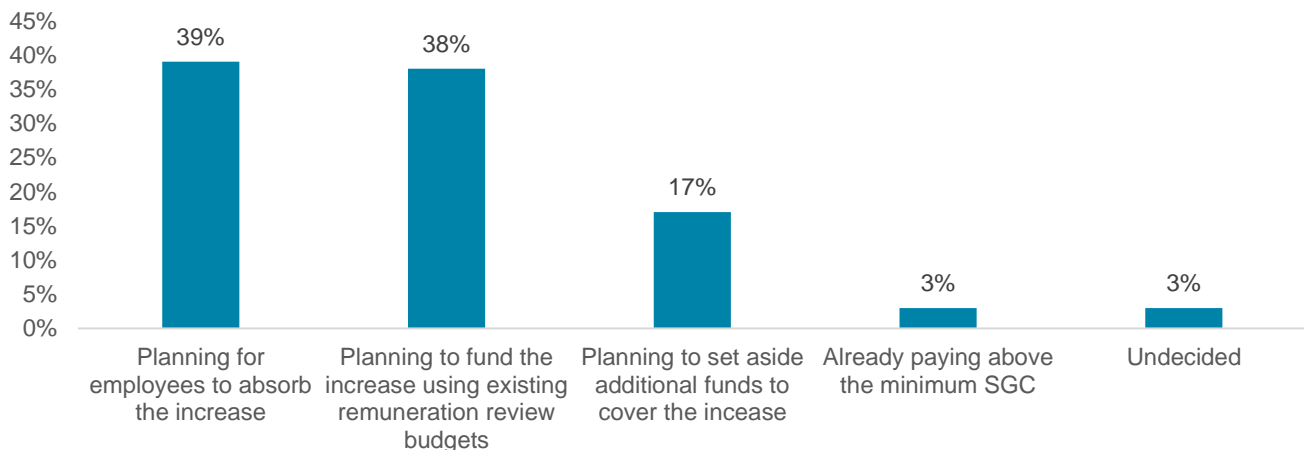
	Total Fixed Approach		Base Plus Approach	
<b>SGC rate</b>	9.5%	10%	9.5%	10%
<b>Base Salary</b>	100,000	99,545.45	100,000	100,000
<b>Superannuation</b>	9,500	9,954.55	9,500	10,000
<b>Total Fixed</b>	109,500	109,500	109,500	110,000

The difference may seem trivial, but when the SGC percentage changes, organisations that communicated a base plus approach will likely need to foot the bill for the additional 0.5%. Companies that communicated a remuneration package amount to their employees may choose for employees to absorb the extra 0.5% in their remuneration package, potentially resulting in a reduction to their take-home pay.

## What are organisations doing to manage this increase?

While an organisation’s approach to communicating pay can dictate their approach to addressing the increase in some cases, in practice, it is not that clear cut. Many organisations with a remuneration package approach that don’t want to see their employees’ take-home pay go down can elect to increase everyone’s remuneration package by 0.5% to offset. The timing of the change effective on 1 July also coincides with most organisations’ remuneration review effective dates, which may make this process administratively easier.

**Figure 1**  
Employers Plan Different Approaches to Addressing Superannuation Increases



Source: Aon’s Superannuation Guarantee Increase Survey

We recommend companies take three steps to be prepared for the new rule. First, understand your obligations. Ensure you get appropriate advice on how the increase can be funded within your organisation, as you may have contractual obligations to fulfil. Next, make sure your payroll team or provider has a plan for the change. And finally, communicate proactively to employees how the change will impact their pay. The last SGC increase was in 2014, so some employees may not realise it is increasing again.

For further information on superannuation in Australia and to understand your obligations as an employer, visit the websites of the [Australian Taxation Office](#) and the [Fair Work Ombudsman](#).

If you would like to discuss this change with Aon's superannuation experts or gain further details and pricing of Aon's Superannuation Guarantee Increase Survey, which was refreshed in May 2021, please [contact us](#) today.

## Author Contact Information

### **Michelle Watson**

Senior Consultant, Rewards Solutions

Aon

+61 9253 8256

[michelle.watson@aon.com](mailto:michelle.watson@aon.com)

### **Saffron Sweeney**

Principal, Senior Actuary

Aon

+61 2 9253 7790

[saffron.sweeney@aon.com](mailto:saffron.sweeney@aon.com)

## About Rewards Solutions

The Rewards Solutions practice at Aon empowers business leaders to reimagine their approach to rewards in the digital age through a powerful mix of data, analytics and advisory capabilities. Our colleagues support clients across a full spectrum of needs, including compensation benchmarking, pay and workforce modeling, and expert insights on rewards strategy and plan design. To learn more, visit: [rewards.aon.com](https://rewards.aon.com).

## About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance. For further information, please visit [aon.com](https://aon.com).

This article provides general information for reference purposes only. Readers should not use this article as a replacement for legal, tax, accounting or consulting advice that is specific to the facts and circumstances of their business. We encourage readers to consult with appropriate advisors before acting on any of the information contained in this article.

© 2021 Aon plc. All rights reserved