

# Member update

## The 2009 federal budget and your superannuation.

15 May 2009

On 12 May 2009 Treasurer Wayne Swan delivered his second Federal budget. Despite rumours about significant superannuation reform, the proposed changes to super in this budget have not been as extensive as first thought. However, further changes may occur in the future as the result of government tax reviews. This Member Update outlines some of the key changes to superannuation.

### Budget tip

Get in before 30 June 2009 to take advantage of the existing concessional contribution cap and co-contribution rules. Further details are outlined below.

### Are the proposed changes final?

The changes in the following paper are proposals unless it is stated otherwise and need to successfully pass through parliament before becoming law. They may be subject to further changes during this process.

**To find out how your personal situation may be affected by any of these changes, or other federal budget changes, please speak to your financial adviser.**

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## Key federal budget 2009 changes to superannuation

### Concessional contributions caps halved

From 1 July 2009

The Government has announced a reduction in the annual concessional contributions cap to \$25,000 (indexed). The annual transitional cap of \$100,000 for individuals age 50 and over will be halved to \$50,000 and will remain in effect until 30 June 2012.

Age as at 30 June 2010	Existing concessional contributions cap 2009/10	Proposed concessional contributions cap 2009/10
Under age 50	\$55,000	\$25,000
At least age 50	\$100,000	\$50,000

The concessional contributions cap includes employer contributions (including the 9% Superannuation Guarantee), before-tax salary sacrifice contributions, and personal contributions for which a tax deduction has been claimed. Amounts over the concessional contributions cap will be taxed at 46.5% (15% contributions tax plus an additional 31.5%) and count towards the member's non-concessional contribution cap (see below).

#### What does this mean for your super?

Concessional contributions are taxed at 15%, which is generally less than tax paid on salary and wages.

Members with additional employer contributions, including salary sacrifice, should take note of the changes and ensure that they are not paying additional tax on their contributions by having their reduced concessional contributions cap exceeded.

If your salary sacrifice arrangement, when combined with your employer's contributions, exceeds the new cap, you may wish to consider revising your strategy with your financial adviser. You can also make personal after-tax contributions from your take home pay into your super, which count towards your non-concessional contributions cap (see below).

#### Budget tip

You can still make concessional contributions up to \$50,000, or \$100,000 if you're over 50 without paying additional tax before 30 June 2009.

### Non-concessional contributions

From 1 July 2009

The annual non-concessional contributions cap is proposed to be six times the annual concessional contributions cap. This will result in a proposed annual non-concessional contributions cap of \$150,000 for the 2009/10 financial year.

	Existing non-concessional contributions limits 2008/09	Existing non-concessional contributions limits 2009/10	Proposed non-concessional contributions limits 2009/10
Annual cap	\$150,000	\$165,000	\$150,000
Maximum with 3 year averaging	\$450,000	\$495,000	\$450,000

Non-concessional contributions are not subject to tax in the superannuation fund as they have already been taxed as your income. They include personal contributions for which no tax deduction has been claimed and spouse contributions. A non-concessional cap applies to these contributions before additional tax is charged, with some exceptions. If you are under age 65 at any time during the financial year, larger contributions can be made by bringing forward two years contributions.

#### What does this mean for your super?

If you make after-tax (non-concessional) contributions you may wish to take note of the changes and ensure you are not unintentionally paying additional tax on your contributions.

#### Budget tip

You may still make non-concessional contributions up to \$150,000, or \$450,000 without paying additional tax.

## Government co-contributions

### From 1 July 2009

The Government has proposed a temporary reduction to the matching rate and maximum co-contribution payable on an individual's non-concessional contribution. This temporary measure begins from the 2009/10 financial year and ends in the 2013/14 financial year.

The table below highlights the proposed changes for the 2009/10 to 2013/14 financial years.

	Lower income threshold	Higher income threshold	Matching rate	Maximum entitlement
From 1 July 2008	\$30,342	\$60,342	Up to 150%	\$1,500, reduced by 5c for every dollar earned over \$30,342 up to \$60,342
From 1 July 2009	Indexed prior year's threshold	Lower income threshold plus \$30,000	Up to 100%	\$1,000, reduced by 3.333c for every dollar earned between the lower and upper income thresholds
From 1 July 2012	Indexed prior year's threshold	Lower income threshold plus \$30,000	Up to 125%	\$1,250, reduced by 4.167c for every dollar earned between the lower and upper income thresholds
From 1 July 2014	Indexed prior year's threshold	Lower income threshold plus \$30,000	Up to 150%	\$1,500, reduced by 5c for every dollar earned between the lower and upper income thresholds

The assessment for the co-contribution will also change from 1 July 2009. Salary sacrifice contributions will be included in the income assessment for eligibility for the co-contribution. This is in line with income assessment for a number of tax and social security benefits.

### What does this mean for your super?

Eligible members will continue to receive the co-contribution, however at a reduced rate. The maximum co-contribution amount is set to return to its current level from 2014.

If you currently both salary sacrifice (before tax) and make after-tax contributions into super to receive the co-contribution it may mean you are no longer eligible or your entitlement may decrease.

The government co-contribution is still an effective way to boost superannuation and retirement savings for low and middle income earners and is still up to 150% of the contribution for the 2008/09 financial year.

#### Budget tip

Contribute to your account by 30 June 2009 and you could be eligible for a government co-contribution of up to 150%.

## Small and lost superannuation accounts

### From 1 July 2010

The Government will require superannuation funds to transfer lost accounts with balances less than \$200 and those which have been in-active for a period of five years to unclaimed money. This will help reduce the national issue of lost accounts.

### What does this mean for your super?

If you have duplicate super accounts from previous employers, you may wish to consolidate into your main account to prevent old accounts becoming lost and being sent to the government.

#### Budget tip

Search for your lost super at [www.ing.com.au/member](http://www.ing.com.au/member).

## Temporary drawdown relief for account based pensions

**From 1 July 2009**

It is proposed that the temporary relief measures for halving minimum pension payments in the 2008/09 financial year will be extended to the 2009/10 financial year.

### What does this mean for your super?

Account based pensioners who do not require their full pension payment may be able to reduce their regular pension amount, therefore avoiding selling investment units at a low price.

## Portability arrangements between Australia and New Zealand

**Yet to be formalised**

The Government is proposing the introduction of a scheme that will permit the transfer of superannuation savings between Australia and New Zealand.

### What does this mean for your super?

Keep an eye out for an update from ING about the developments of this legislation.

## Clarification of Superannuation Guarantee on parental leave payments

**Yet to be formalised**

The government has announced that it intends to clarify the superannuation guarantee (SG) status of certain kinds of leave payments including parental leave. Further information is expected after the completion of a comprehensive review on paid parental leave in 2013.

### What does this mean for your super?

The government may include certain types of leave payments in calculating your employer compulsory SG payments, which are generally 9% of your ordinary time earnings. This means your superannuation savings are being maintained while you're on leave, so your super balance at retirement isn't affected.

Keep an eye out for an update from ING about the developments of this legislation.

## Australia Future Tax System Report

**Yet to be formalised**

In addition to handing down the Federal Budget, the Government released the Australia Future Tax System (AFTS) Report on the retirement income system.

The report has made numerous recommendations regarding superannuation taxation. The Government has agreed to some but has deferred making a decision on others until further examination.

Preservation age is the age at which you can access your superannuation, currently between age fifty-five and sixty depending on your date of birth. The report recommended that the preservation age be gradually extended to 67 in line with the Age Pension age (see below). The taxation of superannuation will also be considered.

### What does this mean for your super?

It is important to note that the report contains recommendations, and while some of these were included in the May budget, others will be considered by the government for the future. A decision on preservation age has not been made yet.

The report recommended further changes to the superannuation and retirement system that will require you to review your plans for retirement.

Keep an eye out for an update from ING about the developments of this legislation.

### **Budget tip**

The AFTS Report recommended that preservation age be gradually increased to sixty-seven; however this was not actually included in the budget. Keep an eye out for updates and review your plans for retirement with your financial adviser.

## Key changes to retirement and social security

### Changes to the Government pension system

#### From 20 September 2009

A new Government pension system will be introduced with effect from 20 September 2009. The new system will consist of two primary payments:

- A base fortnightly rate of pension
- A pension supplement

The pension supplement will be paid fortnightly with the base pension and will include the value of the current GST pension supplement, Pharmaceutical Allowance, Utilities Allowance and Telephone Allowance.

The new pension package will also include the following pension increases:

- For singles: an increase of \$30.00 a week in base pension, \$2.49 a week increase in the new pension supplement
- For couples: \$10.14 a week combined increase in the new pension supplement.

These increases bring the amount of base pension and pension supplement paid to singles to two-thirds of that received by couples combined and will apply to recipients of the Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow Pension, Wife Pension, War Widow/ers and Income Support Supplement.

#### What does this mean for you?

The pension amount has increased however the income test taper rate and Age Pension age have changed. This may mean that some individuals will need to wait longer and pass a stricter means test, meaning that the pension is more targeted at retirees who need support.

Superannuation is, for most people, designed to be one of the main sources of income in retirement. However, the Age Pension is designed as a financial support in retirement and is unlikely to provide for a comfortable lifestyle. You may wish to speak to your financial adviser and review your superannuation and retirement plans.

You may also like to explore the Super Simulator calculator at [www.ing.com.au/supersimulator](http://www.ing.com.au/supersimulator) to find out how much you might have at retirement and how long it could last.

#### Budget tip

Review your personal situation in light of the proposed changes to social security.

The Government Age Pension and related social security services are administered by CentreLink. If you have any questions, please contact CentreLink or visit [www.centrelink.com.au](http://www.centrelink.com.au).

### Increase in the Age Pension Age

#### From 1 July 2017

The qualifying age for the Age Pension will increase from 65 to 67 between 1 July 2017 and 1 July 2023. Everyone born after 1 January 1957 will therefore have an Age Pension Age of 67.

Date of birth	Age	Earliest date of eligibility
1 July 52 – 31 Dec 53	65.5	1 January 2018
1 Jan 54 – 30 June 55	66	1 January 2020
1 July 55 – 31 Dec 56	66.5	1 January 2022
1 Jan 57 and later	67	1 January 2024

#### What does this mean for your super?

This may mean you could work longer, or draw on other sources of income until Government Age Pension Age. A transition to retirement strategy may help you to reduce working hours while maintaining a source of income. You may wish to review your superannuation and retirement plans with your financial adviser.

## Commonwealth Seniors Health Card – income test

### From 1 July 2009

The Government will not proceed with its proposal to include gross tax-free superannuation pension income in the adjusted taxable income test for the Commonwealth Seniors Health Card (CSHC). However it will proceed to include income that is salary sacrificed to superannuation in the income assessment, with effect from 1 July 2009.

The inclusion of salary sacrifice in the CSHC income test is consistent with the income test changes for income support payments that have already been legislated.

### What does this mean for you?

If you currently have a salary sacrifice arrangement, your salary sacrificed amounts will be included in your taxable income test for the Commonwealth Seniors Health Card. You may wish to review your situation and confirm with CentreLink that you are still eligible for the card.

## The pension review report

### Yet to be formalised

The Government has also released a review of the basic structure of Australia's pension system. The report focuses on poverty alleviation, indexation to community living standards and prices and means testing.

Further proposals may be forthcoming after the Government has further examined the report's recommendations.

### Contact us

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If you would like to speak to a financial adviser please contact ING and we can arrange for one to contact you.

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