Product update – Federal Budget 2018

8 May 2018

On 8 May 2018, the Government announced the 2018 Federal Budget. With this year's budget announcements, the Government has proposed a number of measures as part of the Protecting You Super package to protect super balances from eroding, along with changes to the retirement income framework.

The below important changes are proposed and are subject to being implemented by legislation.

1. Changes to insurance

From 1 July 2019, the Government has proposed changes to insurance in superannuation, requiring superannuation funds to offer insurance on an opt-in basis to their members. The criteria for customers who could be impacted are customers:

- who have balances of less than $6,000
- are under the age of 25 years; or
- whose accounts have not received a contribution in 13 months and are active.

If legislated, these changes will apply from 1 July 2019, and impacted superannuation customers will have a period of 14 months to decide whether they will opt in to their existing cover or allow it to switch off.

What does this mean for you?

If these changes are legislated and you meet the above criteria, this could mean changes to your current insurance benefit inside your superannuation account. If legislated, we will communicate any potential changes to you separately.

2. Limit of fees charged to some superannuation customers

From 1 July 2019, the Government has proposed a limit to the amount of investment and administration fees that a superannuation fund can charge to a maximum of 3% p.a. of a customer's super balance. This applies to customers who have balances below $6,000, for a period of 6 months after the balance has first been calculated. The Government has also proposed the banning of exit fees for superannuation funds who charge it.

What does this mean for you?

If these changes are legislated and you meet the above criteria, this could mean a reduction in the fees you currently pay through your superannuation account. Please note that Living Super does not charge any exit fees.

3. Transfer of small and inactive accounts to the ATO

From 1 July 2019, the Government has proposed to commence transferring all inactive superannuation accounts where the balances are below $6,000 to the ATO. The ATO will look to expand its processes to proactively reunite inactive superannuation accounts, and any funds currently held by the ATO, with a customer's active super account where possible.

What does this mean for you?

If these changes are legislated and you have multiple superannuation accounts with low balances, this could mean your balances may be consolidated into your current 'active' account after 1 July 2019. We await further details on any conditions and exclusions that may apply.

4. Changes to the Retirement Income framework

The Government has proposed changes requiring trustees to formulate a retirement income strategy for customers of superannuation funds. Trustees will be required to offer Comprehensive Income Products for Retirement (CIPRs) – products that provide income for life. The Government has also proposed to introduce a requirement for providers of retirement income products to report simplified, standardised metrics in product disclosure to assist customers with decision-making.

No commencement date has been indicated for these changes at this stage.

What does this mean for you?

No action is required at this stage as we await further information from the Government.

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5. Contributions work test: exemption for recent retirees

Currently the work test restricts the ability to make voluntary superannuation contributions for customers who are aged 65-74 and work a minimum of 40 hours in any 30 day period in the financial year.

From 1 July 2019, the Government has proposed to introduce an exemption to the work test for voluntary contributions to superannuation, for people aged 65-74 with superannuation balances below $300,000, in the first year they do not meet the work test requirements.

Existing contribution cap rules will continue to apply to contributions made under the work test exemption.

What does this mean for you?

If this change is legislated and you meet the above criteria, from 1 July 2019 this could mean you are exempt from the work test for voluntary contributions in the first year you do not meet its requirements.

6. Means testing for Lifetime products

The Government has also proposed changes to the pension means test rule to encourage the development and take up of lifetime retirement products. The new rules will assess a fixed 60 per cent of all pooled lifetime product payments as income. 60 per cent of the purchase price of the product will be assessed as assets until the age of 84 years, or a minimum of 5 years, then 30 per cent for the rest of the person's life.

The government has indicated that, subject to being implemented by legislation, the new means test rules will apply to pooled income streams from 1 July 2019. Any pooled lifetime income streams purchased before 1 July 2019 will be grandfathered.

What does this mean for you?

No action is required at this stage as we await further information from the Government.

7. Changes to Super Guarantee to prevent inadvertent concessional cap breaches

The Government has proposed to allow individuals who have multiple employers and income in excess of $263,157 to nominate that their wages from certain employers are not subject to the superannuation guarantee (SG) from 1 July 2018. The measure is intended to allow eligible individuals to avoid unintentionally breaching the current $25,000 concessional contribution cap as a result of multiple compulsory SG contributions.

What does this mean for you?

If these changes are legislated and you meet the above criteria, this could mean a reduction in the amount of SG contributions that are made to your super fund. You should speak to a financial adviser to understand how this could impact you.

8. Changes to claiming a tax deduction on personal contributions

The Government will provide further funding to the ATO to improve the integrity of the current 'Notice of Intent' process for claiming a tax deduction on personal contributions into superannuation. The funding will enable the ATO to develop a new compliance model, ensuring that any deductible contributions are appropriately taxed by super funds and enabling the ATO to deny deductions to individuals who do not comply with the 'Notice of Intent' requirements.

This measure will commence from 1 July 2018.

What does this mean for you?

Ensure you are eligible to claim a tax deduction on personal contribution, and if so ensure you provide notice to your superannuation fund before claiming by completing a Notice of Intent form. You can find more information about the Notice of Intent process and requirements here.

9. No increase to Medicare levy

As part of the Federal Budget 2017 announcements, the Government proposed an increase to the Medicare levy of 0.5% to fund the National Disability Insurance Scheme. The Government has now confirmed they will not proceed with this increase, which would have had a flow-on impact to the rate of tax withheld or paid in respect of certain superannuation amounts.

What does this mean for you?

The current Medicare Levy remains unchanged.

The above are the key highlights of the Federal Budget 2018 announcements that impact superannuation. Further information about the Federal Budget announcements can be found at www.budget.gov.au.