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# Absolutely Super

JUNE 2009

## Swan's Super Song



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The Federal Treasurer delivered his expected 'hard choice' budget on 12 May with a centrepiece of pension increases for both singles (\$32.49 per week) and couples (\$10.41 per week combined). Also of interest is the gradual increase of the Age Pension eligibility age to 67. He announced significant changes to superannuation to address what the government considers to be unsustainable tax concessions for high income earners.

Some of the most important super changes to be implemented from 1 July 2009, include:

- The reduction on the cap of concessional contributions from \$50,000 to \$25,000 and the transitional cap from \$100,000 to \$50,000. Concessional contributions include salary sacrifice and employer contributions which are taxed at 15%. The transitional cap will expire on 30 June 2012, and those over 50 years will revert to the lower, indexed \$25,000 per year cap.
- The non-concessional (after tax) contribution will remain at \$150,000 per year. Members who wish to contribute larger amounts, usually due to a property sale or an inheritance will still be able to contribute \$450,000 in advance for three years.
- Temporary reduction of the co-contribution scheme: the government-matching rate will be reduced from 150% to 100% for contributions made between 1 July 2009 and 30 June 2012. The matching rate will increase to 125% for contributions made from 1 July 2012 and 30 June, 2014. It will then increase to 150% from 1 July 2014. Anyone eligible for the full co-contribution from next financial year will receive a co-contribution of \$1000 rather than the current \$1,500.
- Minimum drawdown reduction for members on pensions and transition to retirement pensions. The minimum drawdown for the next financial year will be 2% of the account balance. This measure was implemented because many pensioners did not wish to draw down the previous minimum 4% when unit prices had declined considerably due to the market downturn.

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- **Lost super:** from 1 July 2009, superannuation providers will be required to transfer accounts with less than a \$200 balance and accounts which have been inactive for five years with insufficient owner information to unclaimed monies. Former holders of these accounts will be able to reclaim their balance from the ATO.

So anyone over age 50 who had planned to top up their super via salary sacrifice will have a limited window of opportunity from 2009 – 2012 to contribute up to \$50,000 per annum including the employer contribution. After that time the limit drops back to \$25,000 per annum. It is also important to calculate the correct contribution as any amounts contributed which are over the limit (\$50,000 or \$25,000) will be taxed at the highest marginal tax rate rather than the concessional 15% tax paid on super.

**Individuals currently on Transition to Retirement Pensions (TRAPs) will be allowed to draw down 2% as a minimum (rather than 4%) for the next financial year. Due to the lower level of concessional contributions, however, it is likely that TRAPs will lose their attractiveness for some working transition to retirement pensioners. Individuals currently using this strategy may wish to consult a financial planner to determine the ongoing effectiveness of this method of saving.**

It is also significant to note that the Pension Bonus Scheme will be closed to new entrants from 20 September 2009. Instead the Government will introduce a Work Bonus which discounts 50% of employment income in determining pension entitlements under the income test.

In the light of a projected deficit of \$57.6B, the Rudd Government has taken a 'hard choice' position to recover tax revenue where possible. While it is regrettable that the popular government co-contribution has been reduced, it is significant that this assistance to low paid workers has not been removed entirely. Similarly, the reduction in concessional contributions for those over 50 will impact negatively on those employees who had intended to salary sacrifice heavily in the lead up to their retirement. Clearly the lost super consolidation is a matter of common sense as members will still be able to track it through the ATO, but dormant accounts in super funds will be closed.

Your position on the changes will most likely depend on your age, your degree of salary sacrifice and whether or not you have been receiving the government co-contribution. What is certain is that the Rudd Government will be reviewing our world-class superannuation system with a view of keeping it attractive as an investment vehicle and equitable for all members.

**Disclaimer:** the information in this article is of a general nature only and does not constitute personal financial planning advice. If you require personal financial planning advice, you should consult a licensed financial planner.

## Do you need more information?

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