



## Federal Budget 2009 information sheet

*This information is correct at 28 August 2009, and relates to taxed superannuation funds such as VicSuper.*

This information sheet explains changes proposed in the 2009 Federal Budget to superannuation and retirement planning, the majority of which are now law. Most changes were designed to reduce Federal Government expenditure, and therefore limit the budget deficit. A key focus of the Budget was also to increase the level of income pensioners receive if eligible for the maximum Centrelink Age Pension.

Most importantly for super fund members, options such as salary sacrifice, the Government co-contribution and transition to retirement strategies continue to be available. And relief granted in the 2008/09 financial year from the full minimum payment amount for superannuation pensions has been extended until 30 June 2010.

### What's changed, and am I affected?

In this information sheet, we explain the legislative changes, and how they affect certain situations which VicSuper members may face – such as new contribution limits for those adding large salary sacrifice amounts to super, and changes to the Centrelink Age Pension.

Situations are set out here, with full explanations provided on the following pages, together with helpful hints to keep in mind.

#### I receive a super pension such as a VicSuper Pension

The relief granted this financial year from the full minimum payment amount has been extended until 30 June 2010. Therefore, people who receive a regular income stream from their super savings can now elect to receive just half of their minimum payment amount during the 2009/10 financial year.

#### I contribute voluntarily into my superannuation account

Making extra contributions is a great strategy to increase retirement savings. But if the amount you add each year is significant, be mindful of the lower contribution limits. Concessional contribution limits, which cover Superannuation Guarantee (SG) and salary sacrifice, were halved on 1 July 2009.

These limits cap the amount of super which individuals can contribute at the low tax rate of 15%; the limits are \$25,000 per annum for people under age 50, and \$50,000 per annum for people age 50 to 74, which is a transitional limit in place until 30 June 2012.

#### I receive a full or part Centrelink Age Pension

From 20 September 2009, individuals and couples currently eligible for the maximum Age Pension will receive a payment increase. This will total \$65 per fortnight for single pensioners and a combined \$20.30 per fortnight for couple pensioners.

For those eligible for the Age Pension under the Income Test, the tapering rate will increase from 40 to 50 cents. But people currently receiving a part Age Pension will keep their existing entitlement (maintained in real terms), and also receive an increase of \$20.20 per fortnight if single and \$20.30 per fortnight combined if a couple.

#### I make personal (after-tax) contributions to qualify for the Government co-contribution

The Government co-contribution scheme is one of the most popular ways in which eligible people can increase their retirement savings. Although the scheme will remain available, the matching rate and maximum amount will be reduced for a period of five consecutive financial years, starting 1 July 2009.

This means the maximum co-contribution amount will drop from \$1,500 to \$1,000 per annum for the 2009/10 financial year.

### Other Federal Budget 2009 changes

- Super balances of less than \$200 considered lost for five years will be transferred to unclaimed monies held by the ATO, starting 1 July 2010; super fund members will be able to claim their super from the ATO at any time. This change has not yet been passed.
- The qualifying age for the Centrelink Age Pension will increase to 67 for both men and women, starting on 1 January 2023. A transition period for moving to this higher Age Pension qualifying age will begin in 2017, affecting those born on or after 1 July 1952.
- Eligibility under the income assessment for the Commonwealth Seniors Health Card now includes salary sacrifice contributions – but not, as proposed, gross income from super income streams which are derived from a taxed source such as a VicSuper Pension.
- An in-principle agreement has been reached for the transfer of retirement savings between Australian and New Zealand superannuation funds (called the 'Trans-Tasman retirement savings portability scheme').

These changes are explained on the back page ►

## Superannuation changes explained in more detail

### I contribute voluntarily into my superannuation account

#### Changes now law:

- The concessional contribution limit has been halved.
- The non-concessional contribution limit will be maintained.

#### What do the changes mean?

##### The concessional contribution limit has been halved

Concessional super contributions include Superannuation Guarantee (SG), salary sacrifice, and deductible self-employed contributions. The Federal Budget reduced the concessional limit from \$50,000 to \$25,000 per annum (per individual across all super funds); and also reduced the transitional limit available to people age 50 to 74 from \$100,000 to \$50,000 per annum. The new limits took effect on 1 July 2009, with the transitional limit to end on 30 June 2012. At that time, people age 50 to 74 will be subject to the concessional limit; the current limit of \$25,000 per annum will be indexed, but the transitional limit will not.

#### Example – mind the concessional limit!

	Maria – 45 years old, earns \$60,000 pa	Sue – 55 years old, earns \$80,000 pa
<b>Concessional limit</b>	<b>\$25,000 pa</b>	<b>\$50,000 pa</b>
<b>Concessional contributions</b>		
9% SG	\$5,400	\$7,200
Regular salary sacrifice	\$19,000	\$40,000
Salary sacrificed bonus	\$8,000	\$8,000
<b>Total contributions</b>	<b>\$32,400</b>	<b>\$55,200</b>
<b>Excess amount*</b>	<b>\$7,400</b>	<b>\$5,200</b>
<b>Tax</b>		
Amount under the limit (rate of 15%)	\$3,750	\$7,500
Amount over the limit (rate of 46.5%)	\$3,441	\$2,418
<b>Total tax (from their super account)</b>	<b>\$7,191</b>	<b>\$9,918</b>

\* The amount which is over the concessional contribution limit is counted towards the individual's non-concessional limit.

As shown in the example, Maria and Sue both have an excess amount which will therefore be charged tax at a rate of 46.5%, the highest marginal tax rate plus Medicare Levy. To avoid this higher tax rate, sacrificing only a portion of their bonus into super, or reducing their regular salary sacrifice arrangement, may be preferable.

##### The non-concessional contribution limit will be maintained

Non-concessional super contributions come from after-tax money, and include personal contributions and eligible spouse contributions. The non-concessional limit is currently \$150,000 per annum, or \$450,000 over three years (per individual across all super funds) if under 65. Under the Federal Budget, this limit will remain unchanged for the moment; the planned increase to \$165,000 on 1 July 2009 was scrapped. In future, this limit will remain set at six times the concessional limit (currently \$25,000 per annum); as a result, the non-concessional limit will increase only with the concessional limit, which is indexed.



Many super fund members salary sacrifice a regular amount into super each pay period – often a few hundred dollars – which steadily builds their retirement savings, and falls well under their contribution limit.

But if adding a large sum to super, such as via a transition to retirement strategy or as deductible self-employed contributions, it may pay to check your annual contribution amount by calling VicSuper on toll free **1300 366 216**.

### I boost my superannuation balance with a Government co-contribution amount

#### Change now law:

- The maximum co-contribution amount which eligible super fund members can receive each year will temporarily reduce for a five year period from 1 July 2009 to 30 June 2014.

#### What does the change mean?

Under the co-contribution scheme, the previous rate at which the Government matches eligible personal (after-tax) contributions was 150%, or \$1.50 for each eligible dollar contributed. Starting 1 July 2009, this rate has been reduced for a period of five years, but will return to the current rate of 150% on 1 July 2014. This reduction is set out in the table below:

Financial Year	Matching rate	How much can I receive for each eligible dollar?	Maximum co-contribution (per \$1,000)
2009/10	100%	\$1.00	\$1,000
2010/11	100%	\$1.00	\$1,000
2011/12	100%	\$1.00	\$1,000
2012/13	125%	\$1.25	\$1,250
2013/14	125%	\$1.25	\$1,250
2014/15	150%	\$1.50	\$1,500

Please note that the eligibility rules for the Government co-contribution have not changed.



Despite the change, this scheme is still a great way to boost super for those with a total annual income under \$61,920. In 2009/10, all eligible contributions will be matched dollar for dollar, equalling a maximum co-contribution of up to \$1,000 per annum.

For more details, visit [vicsuper.com.au/cocontribution](http://vicsuper.com.au/cocontribution)

## I receive a superannuation pension such as a VicSuper Pension

### Change now law:

- Relief for the minimum pension payment amount has been extended another year to 30 June 2010.

### What does the change mean?

In response to the global financial crisis, relief was first provided in the 2008/09 financial year to people receiving the full minimum payment amount from a superannuation pension. The Federal Budget has extended this relief for the 2009/10 financial year.

As a result, there will be no obligation to receive the full minimum amount until 1 July 2010. Instead, a 50% reduction will be available to account-based pensions (such as VicSuper Commutable Pension and VicSuper Non-Commutable Pension) and allocated and marked-linked pensions (such as VicSuper Term Allocated Pension).



If you'd like to discuss this matter, please call VicSuper's Member Centre on toll free **1300 366 216**.

## I receive the Centrelink Age Pension

### Changes from 20 September 2009

- The maximum Centrelink Age Pension will increase for singles and couples.
- The Income Test tapering rate for the Centrelink Age Pension will increase.
- Allowance payments will be simplified into a fortnightly Pension Supplement.
- The Government will develop a new price index for pensioners.
- A 'Work Bonus' will be introduced for Centrelink Age Pension recipients (with the existing Pension Bonus scheme to be scrapped).
- A Seniors Supplement will be introduced.

### What do the changes mean?

#### *The maximum Centrelink Age Pension will increase for singles and couples*

Those people already receiving the maximum Age Pension will soon have more income each week due to the Federal Budget:

- Single pensioners will receive a \$65 increase per fortnight.
- Couple pensioners will receive a combined increase of \$20.30 per fortnight.

#### *The Income Test tapering rate for the Centrelink Age Pension will increase*

The rate at which the Age Pension reduces under the Income Test will increase from 40 cents to 50 cents for each additional dollar of income above the Income Test free amount. According to the Government, existing part pensioners won't lose their current entitlement (maintained in real terms); instead, an increase of \$20.20 per fortnight for singles and \$20.30 per fortnight combined for couples will be provided.

#### *Allowance payments will be simplified into a fortnightly Pension Supplement*

To streamline the pension payment system, the Government will pay the following four existing fortnightly and quarterly allowances as a single fortnightly Pension Supplement – the existing GST supplement, the Pharmaceutical Allowance, the Utilities Allowance, and the Telephone Allowance (paid at the higher internet rate).

From 1 July 2010, pensioners who elect the Pension Supplement can choose to receive approximately half their amount each fortnight or quarter. Accessing advanced pension payments will also be easier due to an increase in the maximum allowable advance, and an increase in the number of advances which are possible each year.

#### *The Government will develop a new price index for pensioners*

To help link pension payment amounts to movements in the actual living cost experienced by Australian pensioners, the Government will develop a new Pensioner and Beneficiary Living Cost Index. This index will be used in the calculation of the indexed pension rates, if greater than CPI.

#### *A 'Work Bonus' will be introduced for Centrelink Age Pension recipients*

To enable Age Pension recipients to keep more income earned through part-time work, the Government will introduce a new 'Work Bonus'. This is designed to encourage people to remain in the workforce and will help retirees receive the Age Pension and work part time.

With this bonus, pensioners may receive a maximum of \$125 per fortnight in additional Age Pension payments (half of the first \$500 of employment income per fortnight won't be included under the Income Test). The Work Bonus will replace the Pension Bonus scheme (although existing Pension Bonus entrants will continue to accrue benefits).

#### *A Seniors Supplement will be introduced*

A new supplement called the 'Seniors Supplement' will become available to eligible self-funded retirees. This supplement will incorporate the Seniors Concession Allowance and the higher rate Telephone Allowance – totalling \$790.40 per annum for singles and a combined \$1,190.80 per annum for couples. Payments will be made each quarter. To receive the Seniors Supplement, self-funded retirees must be eligible for the Commonwealth Seniors Health Card or Department of Veterans' Affairs Gold card with the current Seniors Concession Allowance.

## Other Federal Budget 2009 changes

### Qualifying age for the Centrelink Age Pension

A higher qualifying age for a full or part Centrelink Age Pension is now in place for Australians born on or after 1 January 1952. People born on or after this date could previously qualify at age 65, but must now wait up to two more years. Moving to this higher eligibility age will be a gradual process, with the qualifying age increasing by six months every two years from 1 July 2017, affecting those born between 1 January 1952 and 31 December 1956.

Therefore, on 1 January 2023 the qualifying age for the Centrelink Age Pension will be 67. Right now, men must be age 65, while women can qualify between age 60 and 65 depending on their date of birth. As well as the age criteria, people must satisfy residency requirements. Centrelink then works out how much Age Pension is payable, depending on income and assets and other circumstances.

### Lost super balances under \$200 transferred to the ATO

Australian super funds hold around 3 million accounts under \$200, according to the Association of Superannuation Funds Australia.

From 1 July 2010, accounts under \$200 considered lost for five years will be transferred to unclaimed monies held by the ATO. Accounts are 'lost' when insufficient information is available to identify the account owner, which is often due to an address change.

Super fund members will be able to claim their lost super account from the ATO at any time. Please note this is a proposed change, and is yet to become law.

### Salary sacrifice contributions now included for Seniors Health Card eligibility

Eligibility under the income assessment for the Commonwealth Seniors Health Card now includes salary sacrifice contributions – but not, as proposed, gross income from super income streams derived from a taxed source such as a VicSuper Pension. This change took effect on 1 July 2009.

### Agreement on super transfers between Australian and New Zealand funds

An in-principle agreement has been reached for the transfer of retirement savings between Australian and New Zealand superannuation funds.

Called the 'Trans-Tasman retirement savings portability scheme', the objective is to help those wishing to consolidate retirement savings split between countries, which may also help to reduce fees and charges. Participation in this scheme will be voluntary for both super funds and individuals. The two countries are now working to enable this legislation.

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