



News from the Federal Government's 12 May 2009 Budget A summary of superannuation and related changes

The second of the Rudd Government's Federal Budgets has delivered fewer changes to superannuation than has been speculated in the media for the last few months.

The big changes for superannuation funds and their members are the:

- ▶ temporary reduction in the Government superannuation co-contribution match, and
- ▶ reduction of the concessional contribution caps, particularly aimed at limiting large salary sacrifice contributions to superannuation.

The proposals the Government has put forward in the Budget 2009 include:

- ▶ Reducing both the co-contribution match and the limit of concessional (including superannuation guarantee, other employer and salary sacrifice) contributions
- ▶ The continuation of the 50% drawdown relief for minimum income stream payments
- ▶ Changes to the payment of lost super accounts as unclaimed monies
- ▶ The introduction of portable Trans-Tasman retirement savings
- ▶ Increasing the qualifying age for the Age Pension from 65 to 67
- ▶ Making changes to the income test with much steeper phase out rates
- ▶ Removing the Pension Bonus Scheme and introducing a Work Bonus.

The other news is that there are no changes to the personal income tax rates announced in the 2008/2009 Budget, but the Medicare Levy Surcharge is to increase from 1 July 2010.

Changes to the co-contribution scheme

The Government will **temporarily** reduce the superannuation co-contribution matching rates for a period of five years.

For those members eligible for a co-contribution the following matching rate have been proposed:

Financial year	Matching rate	Maximum co-contribution match
2008-09	150%	\$1,500
2009-10	100%	\$1,000
2010-11	100%	\$1,000
2011-12	100%	\$1,000
2012-13	125%	\$1,250
2013-14	125%	\$1,250
2014-15	150%	\$1,500

Concessional contribution caps reduced

The Government has proposed to reduce the cap on concessional superannuation (including superannuation guarantee, other employer and salary sacrifice).contributions.

From 1 July 2009, the annual cap on concessional superannuation contributions will be reduced from \$50,000 to \$25,000, and the transitional cap for the over 50s (which applies until 30 June 2012) from \$100,000 to \$50,000.





'Grandfathering' arrangements will apply to certain members with defined benefit interests as at 12 May 2009 whose notional taxed contributions would otherwise exceed the reduced cap.

The Government estimates that less than 2% of people who make concessional contributions will be affected by this measure (regardless of age).

Non-concessional contributions

The \$150,000 annual cap on non concessional contributions (including after tax contributions) for the 2008-09 financial year will remain at that level in 2009-10. In the future, the cap will be calculated as **six times** (previously three times) the level of the indexed concessional contributions cap.

Extension of minimum drawdown rate for income stream payments

The Government has extended the drawdown relief provided for account-based pensions in 2008-09. This will see the minimum payment amounts for account-based pensions reduced by 50% for 2009-10. This relief applies to First State Super Retirement Income Streams and Transition to Retirement Income Streams. The extension recognises the impact of the global downturn on account-based pensions.

Minimum payment limits

The minimum payment limit is calculated as a percentage factor (see the table below) of your account balance rounded to the nearest \$10. The minimum payment limit, age and account balance are calculated at the time the income stream commences and also on 1 July in each subsequent year.

Age at commencement date then 1 July	Percentage factor for 2008-09 and 2009-10
Under 65	2%
65 – 74	2.5%
75 – 79	3%
80 – 84	3.5%
85 – 89	4.5%
90 – 94	5.5%
95 or more	7%

Changes to the payment of lost super accounts as unclaimed monies

The Government will require superannuation providers to transfer lost accounts which have balances less than \$200, or which have been inactive for five years and for which there are insufficient records to identify the owner of the account, to unclaimed monies. This measure will have effect from the 2010-11 income year. Former holders of these lost accounts will still be able to reclaim their money from the ATO at anytime.

Currently, lost account balances are paid to unclaimed monies when a member reaches age 65 and cannot be found by a fund trustee, or when a member dies and the trustee cannot ensure the benefit is received by the person entitled to receive the benefit.

The measure will assist in rationalising the Lost Members Register and reduce the number of small or inactive accounts that funds are required to administer and application of the member protection rules.





The introduction of portable Trans-Tasman retirement savings

The Government has agreed in principle to the signing of a memorandum of understanding with New Zealand to establish a trans-Tasman retirement savings portability scheme. The scheme will have effect from a date set in accordance with the memorandum of understanding. The final details of the scheme are currently being settled with New Zealand.

The scheme will permit transfers of superannuation savings between certain Australian superannuation funds and New Zealand KiwiSaver funds. Currently, members of Australian super funds may only transfer their retirement savings within the Australian superannuation system.

Increase the qualifying age for the Age Pension

The Government has proposed to progressively increase the qualifying age for the Age Pension. The Age Pension age will be increased to 67 years, at a rate of six months every two years, beginning in 2017.

Date	New Pension Age	Affects people born
1 July 2017	65.5	1 July 1952 - 31 December 1953
1 July 2019	66	1 January 1954 - 30 June 1955
1 July 2021	66.5	1 July 1955 - 31 December 1956
1 July 2023	67	1 January 1957 - onwards

Please note that the Service Pension qualifying age will remain at the current level of age 60 for men. For women it is already progressively increasing to 60 by 1 January 2014.

Make changes to the income test with much steeper phase out rates

From 20 September 2009 the Government will increase the rate at which the Age Pension is withdrawn from 40 to 50 cents for each additional dollar of private income. Special transitional rules will be applied to ensure that existing part pensioners are not worse off.

The new Work Bonus (see below) will exclude half of the first \$500 per fortnight of employment income from the income test.

Commonwealth Seniors Health Card — income test

The Government will not proceed with an element of the measure *Responsible Economic Management — Commonwealth Seniors Health Card — adjusted taxable income test* announced in the 2008-09 Budget to change the Commonwealth Seniors Health Card income test to include gross tax-free superannuation pension income in the adjusted taxable income test. The Government will proceed with the other element of the measure — to include income that is salary sacrificed to superannuation in the income assessment, with effect from 1 July 2009.

Removal of the Pension Bonus Scheme and introduction of the Work Bonus

The Government will increase rewards to work through a Work Bonus. From 20 September 2009, only half of the first \$500 of fortnightly employment income will be included in the income test. This means that as a person's employment income increases their pension will reduce at half the rate it otherwise would have. Pensioners and part-rate pensioners will retain more of their pension entitlements under the Work Bonus – up to a maximum benefit of \$125 per fortnight

Pension Bonus Scheme

The Government will close the Pension Bonus Scheme to new entrants from 20 September 2009. Existing members of the scheme will continue to accrue entitlements under existing rules.





FIRST STATE SUPER

FSS Trustee Corporation

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Personal income tax rates and changes to the Medicare Levy Surcharge

The previously announced personal income tax cuts will go ahead. The rates are below:

Proposed tax Rate From 1 July 2009 Income range (\$pa)	Tax rate%	Proposed tax Rate From 1 July 2010 Income range (\$pa)	Tax rate%
0-6,000	0	0-6,000	0
6,001-35,000	15	6,001-37,000	15
35,001-80,000	30	37,001-80,000	30
80,001-180,000	38	80,001-180,000	37
180,001+	45	180,001+	45

Medicare levy surcharge increase

From 1 July 2010 the Medicare levy surcharge rate will increase for singles earning above \$90,000 and families earning above \$180,000 who do not have private health insurance. See below:

Singles Amount of income:	Families Amount of income:	Medicare Levy Surcharge rate
\$75,001 and \$90,000	\$150,001 and \$180,000	1%
\$90,001 and \$120,000	\$180,001 and \$240,000	1.25%
More than \$120,000	More than \$240,000	1.5%

More information

More information is also available on the Australian Government's Budget 2009-2010 website at www.budget.gov.au

It is recommended that you consult a licensed or authorised financial adviser if you require financial advice which takes into account your personal circumstances.

If you'd like to speak to an FSS Financial Planning adviser about your contribution strategies and personal circumstances call 1800 665 756 (toll free).

Important Note: Issued by FSS Trustee Corporation (FTC) ABN 11 118 202 672, AFSL 293340, the Trustee of First State Superannuation Scheme (the Fund) ABN 53 266 460 365.

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