

This review explains some of the changes to superannuation announced in the Federal Budget and the potential impacts for our members

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Whilst the recent Federal Budget did not serve to change the Australian superannuation system fundamentally, there remains some speculation that the recommendations from the Henry and Harmer reviews may lead to further changes to super later this year.

In light of this, many members are unsure about the future of their super and are asking GESB for more information and education around this topic.

To help our members make sense of the various reviews into the superannuation and retirement income systems, we think it is a good idea to briefly explain the rationale behind the current systems in Australia.

What is super?

Superannuation is simply a vehicle for holding your investments, and offers attractive concessional tax rates to encourage people to save for retirement

The Three Pillars of Australia's retirement income system

The overarching aim of Australia's 'three-pillar' retirement income system is to provide support for the aged once they are no longer able to work. This is achieved by providing a minimum standard of financial support on retirement and encouraging people to save towards adequately funding their own retirement income needs.

The financial support is provided through the Age Pension, which is funded by the Federal Government and supported by the Superannuation Guarantee (or SG) and Voluntary Savings of working Australians.

Pillar 1. The Age Pension

The Age Pension provides basic support to older Australians with no or moderate private income or assets. The purpose of the Age Pension is to provide an acceptable standard of living in retirement regardless of an individual's time in the workforce and access to superannuation. A means test takes into account a retiree's other income and assets to determine the supplementation.

The 2009/10 Federal Budget released on 12th May announced that from 2017, the age at which retirees become eligible for their Age Pension payments will be gradually increased from 65 to 67. This increase will be phased in and will be effective by 2023. The Commonwealth Government has also noted that the panel for the Review of the Retirement Income System recommended aligning the preservation age with the increased Age Pension age. These moves reflect the reality that Australians are living longer. This increasing longevity means that people are receiving the Age Pension for far longer periods than in the past.

The table below illustrates the changes to average life expectancy:

Life expectancy	In 1909	If born in 1931 (aged 60 in 1991)	If born in 1949 (aged 60 in 2009)	If born in 2009
Male	56	63	66	79.2
Female	60	67	71	84.1

Source: Australian Bureau of Statistics

Pillar 2. Compulsory Saving (superannuation guarantee (SG))

The SG requires individuals to save for their retirement and closely relates an individual's retirement income to their time in the workforce. Employers are required to make superannuation contributions for most of their employees.

One of the reasons behind the introduction of compulsory saving by the Government was to counter the possible short-sighted behaviour of individuals to save inadequately for their own retirement.

Pillar 3. Voluntary Saving

The Voluntary Savings pillar enables the average Australian to choose how they save, and provides incentives (generally in the form of tax concessions) to save and invest for their future retirement. Voluntary saving also allows those who are not part of the workforce to participate in the super system.

This pillar includes those superannuation contributions over and above the SG and non-superannuation savings, such as bank deposits and property investment.

The compulsory and voluntary savings pillars encourage individuals to save for their own retirement and ensure they plan for a level of income and lifestyle that suits their needs. This is often referred to as providing an 'adequate' retirement income.

The Westpac AFSA Retirement Standard survey (Dec 2008) benchmarks the annual budget needed to fund a modest or comfortable standard lifestyle in the post-work years.

'Modest' budget & lifestyle

For couples \$27,454* pa For singles \$19,617* pa

- No eating out
- Clothes from discount chains
- No entertaining at home
- No alcoholic drinks
- No private health insurance
- Cheap holidays close to home

'Comfortable' budget & lifestyle

For singles \$37,829* pa For couples \$50,561* pa

- Eating out from time to time
- Clothes from department stores
- Entertaining at home fortnightly
- A few alcoholic drinks per week
- Private health insurance
- Overseas trip every five years

Source: Westpac AFSA Retirement Standard survey, December 2008

* The figures assume that the retiree(s) own their own home. The figures relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period or retirement. Single calculations are based on female figures.

The latest survey found that a comfortable lifestyle in retirement requires \$37,829* pa for singles and \$50,561* pa for couples. Even with the Federal budget increases in weekly payments for singles, the annual Age Pension totals \$17,507.36 pa for singles and \$26,390.00 pa for couples.

Through Pillars 1 and 2, you are supported by both the government and your employer throughout your working life but it is the third pillar, Voluntary Saving, that gives you the opportunity, and some incentives, to ensure you save enough to live a 'comfortable' retirement in your post-work years.

Superannuation is a crucial component for funding a 'comfortable' lifestyle in retirement.

Voluntary Saving: What can you be doing?

The third pillar was the focus of some of the proposed changes introduced to super in the recent Federal Budget. While some commentators have suggested that these changes make voluntary saving in super less attractive, there are special circumstances for GESB members which continue to make it an attractive savings vehicle.

Salary Sacrifice: the continued benefits and recent changes in Federal Budget

A salary sacrifice arrangement is an agreement between you and your employer, which involves you choosing to have part of your before-tax salary paid by your employer into your super rather than taking it as cash. This is in addition to the SG contributions that your employer would normally make.

Here's a reminder of the benefits:

- Pay a lower rate of tax: Contributions made to your super by your employer – including those made through salary sacrifice – are only taxed at 15% which is much lower than most personal income tax rates.
- Pay less income tax: Salary sacrifice contributions may give you an immediate tax benefit by reducing your taxable income into a lower tax bracket - which means you would pay less income tax.
- Flexibility: You can start, stop or change your salary sacrifice contribution amount as your personal circumstances change.

These contributions are referred to as 'concessional contributions'.

Impact on income tests

From 1 July 2009, the amount you salary sacrifice will be reported by your employer on your part year and annual payment summary. These amounts will be added to income tests for determining your eligibility to the spouse superannuation contributions tax offset, the Commonwealth Government Co-contribution and deduction for personal superannuation contributions.

The salary sacrifice amount reported will also be included in the income tests for various Government assistance payments and may impact on your eligibility to these payments.

Federal Budget changes to salary sacrifice arrangements

Some changes to super announced in the Federal Budget on 12th May do impact the amount of concessional contributions that can be made to your super account.

From 1 July 2009, if you are under 50 years of age, the maximum amount of concessional contributions (employer SG and salary sacrifice) being made to your super account is capped at \$25,000 pa. This is a 50% reduction from the previous maximum of \$50,000.

If you are 50 years or over, the concessional contribution level has been set at \$50,000, reduced from the previous amount of \$100,000. This transition arrangement will exist until 30 June 2012.

* Important information for members of West State Super *

The new concessional contribution caps only apply to taxed super funds. As West State Super is an untaxed fund, members are not affected by the reduction and can continue to contribute above the new levels. For instance, if you are currently salary sacrificing \$60,000 pa into your West State Super account, you are not affected by this change and can continue to salary sacrifice at this level. Any contributions made to West State Super will not be taxed until you access your benefit, meaning you enjoy the full effect of compounding.

It should be noted that there is an untaxed plan cap of \$1,100,000 for 2009/10 (indexed) on the amount of superannuation benefit that would be concessionally taxed when you access your benefit. Depending on the age you access your benefit, the tax rate applicable may be up to 31.5%. Any amount in excess of \$1,100,000 will be taxed at the highest marginal tax rate of 46.5% when the benefit is accessed.

It is important for members to understand the impact of changes to concessional caps because higher-earners are likely to breach the new caps if they continue at their current contribution levels. For example, if you are under 50 and earn more than \$280,000 pa you are likely to immediately breach the new concessional cap level of \$25,000.

Here are some examples to illustrate the point:

Example 1:

Steve is 36 years old and earns \$110,000 pa

Steve's Salary	\$110,000
Employer Super Guarantee (SG) contribution	\$9,900
Salary sacrifice contribution	\$20,000
Total concessional contributions	\$29,900
The new concessional contribution cap	\$25,000
Steve will breach the cap by	\$4,900

What should Steve do?

Steve will need to reduce his salary sacrifice contributions by \$4,900 to ensure that he does not breach the cap and incur additional tax at 31.5% on the excess concessional contributions made

Example 2:

Sarah is 53 years old and earns \$260,000 pa

Sarah's Salary	\$260,000
Employer Super Guarantee (SG) contribution	\$23,400
Salary sacrifice contribution	\$28,200
Total concessional contributions	\$51,600
The new cap	\$50,000
Sarah will breach the cap by	\$1,600

What can Sarah do?

Sarah will need to ensure her salary sacrifice contributions do not exceed \$26,600 a year or else she will breach the reduced concessional cap.

What can you do?

You can easily start, stop or change your salary sacrifice contribution amount as your situation changes.

Temporary reduction in Co-contribution payments

The co-contribution scheme benefits those on low to mid level incomes by providing an incentive to make personal contributions from after-tax salary. To be eligible for a co-contribution payment from the Government, your income level must be between \$30,342 and \$60,342, and you must be making personal after-tax contributions to your account.

- **If you'll earn less than \$30,342** for the 2008/2009 financial year and you're eligible for a co-contribution, then for every dollar you invest in your super before 30 June 2009, the Commonwealth Government could invest \$1.50, up to a maximum of \$1,500.
- **If you'll earn more than \$30,342 but less than \$60,342** for the 2008/2009 financial year and you're eligible for a co-contribution, you'll get at least a portion of that 150% Government boost when you make a personal after-tax contribution to your super before 30 June 2009.

From 1 July 2009, the maximum co-contribution from the government will be reduced from \$1.50 to \$1.00, i.e. matching your personal contribution dollar-for-dollar up to a maximum of \$1,000 in any one financial year.

If you meet all the eligibility requirements and have not yet made a contribution to your super this financial year, GESB recommends that you act before 30 June 2009 to benefit from the \$1,500 maximum level available.

Here are two examples of co-contribution calculations, both before and after the recent budget announcements:

Annual income of less than \$30,342 pa

Before 30 June 2009:	
Member makes a personal contribution	\$1,000
Receives a co-contribution from the Government	\$1,500
From 1 July 2009:	
Member makes a voluntary contribution	\$1,000
Receives a co-contribution from the Government	\$1,000

Annual income of between \$30,342 pa and \$60,342 pa

Before 30th June 2009:	
Member makes a personal contribution	\$333
Receives a co-contribution from the Government	\$500
Value of personal contributions and co-contribution in a financial year	\$833
From 1 July 2009:	
Member makes a personal contribution	\$333
Receives a co-contribution from the Government	\$333
Value of personal contributions and co-contribution in a financial year	\$666

To learn more about co-contributions, view GESB's webcast at www.gesbdoubleit.com.au.

Budget brings more relief for retirees on minimum draw-down amount

Retirees concerned about the impact of the global financial crisis on their retirement income will be pleased that the Government has extended the pension drawdown relief until 30 June 2010.

GESB understands that many retirees would be concerned about draw-down levels during the downturn in the market. Members with a Retirement Income Allocated Pension (including members who have started a Transition to Retirement Allocated Pension) can reduce their pension payments and leave the majority of their retirement savings invested while the market recovers.

What you should do

GESB encourages those who think this would be beneficial for their retirement savings to see a qualified financial adviser before taking any action.

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