

Your money Your future



Financial Planning newsletter



Federal Budget 2009/10: Are you affected?

Budget highlights

Key changes which may affect your financial planning strategies:

- Cuts to concessional contributions caps
- Super co-contribution reduced for now
- Relief for account-based pensions
- Good news for Commonwealth Seniors Health Card holders
- Keeping seniors in the workforce
- Relying on the Age Pension
- Taxation and private health insurance
- First home buyers' reprieve

Federal Treasurer Wayne Swan has presided over a record \$57.6 billion deficit in his second budget amid difficult economic conditions. With a return to surplus not forecast until 2015/16 and a \$210 billion collapse in government revenue over the next four years, budget spending has focused on infrastructure projects to stimulate employment and welfare support for pensioners.

Revenue raising to help fund these spending promises is largely targeted at higher income earners. Some of the key changes affecting retirees and those planning for retirement include the following:

Cuts to concessional contributions caps

Concessional contributions include compulsory employer superannuation contributions as well as salary sacrifice contributions. Also if you are self-employed, contributions for which you claim a tax deduction are classified as concessional contributions.

The government will cut the concessional contribution cap in half, from \$50,000 to \$25,000 for those under 50 years of age, from 1 July 2009. The transitional cap for people over 50 will also be halved from \$100,000 to \$50,000 until 30 June 2012, after which it will revert to the lower \$25,000 cap (indexed). However, you still have until 30 June 2009 to maximise your concessional contributions for the 2008/09 financial year.

Super co-contribution reduced for now

For those on lower incomes, the superannuation co-contribution matching rate will be reduced. This means that the maximum co-contribution payable will be reduced to \$1,000 for contributions



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Federal Budget 2009/10: Are you affected? continued

made in the 2009/10, 2010/11 and 2011/12 financial years. Don't forget that you have until 30 June 2009 to make personal contributions and receive a government co-contribution of up to \$1,500 for 2008/09.

Relief for account-based pensions

In a welcome move for retirees, minimum drawdown amounts on account-based pensions will be halved for the 2009/10 financial year. This means a self-funded retiree who is committed to drawing down a minimum annual pension of \$30,000 will now only have to draw a minimum of \$15,000 from their super savings in 2009/10. The change is designed to help self-funded retirees recover from capital losses associated with the global recession and reduce the need to sell assets at a loss in order to meet minimum withdrawal requirements.

Good news for Commonwealth Seniors Health Card holders

The government's proposal to include lump sum withdrawals and gross pension payments from superannuation funds in the income test for the Commonwealth Seniors Health Card has been dropped. However, the proposal to include amounts salary sacrificed into super in the income test will apply from 1 July 2009.

Keeping seniors in the workforce

Many Australians may be working longer under changes to the pension eligibility age. Under the new rules to be phased in by 2023, people born after 1 January 1957 will not gain access to the Age Pension until they are 67. The current eligibility age for the pension is 65 for men and 63.5 for women.

The table below shows how the pension age will change:

Date	New Age Pension age	Affects people born between:
1 July 2017	65 ½ years	1 July 1952 to 31 December 1953
1 July 2019	66 years	1 January 1954 to 30 June 1955
1 July 2021	66 ½ years	1 July 1955 to 31 December 1956
1 July 2023	67 years	From 1 January 1957

The move also foreshadows a recommendation of the Henry tax review, to lift the superannuation preservation age to 67 in the future, to bring it into line with the increased pension age. Current super preservation ages stand between 55 and 60, depending on your date of birth.

Taxation and private health insurance

High income earners will receive a lower tax rebate for their private health insurance premiums. The Medicare levy surcharge will also increase for some high income earners who choose to opt out of private health insurance.

Three new private health insurance tiers will be introduced from 1 July 2010, as shown in the following table:

	Projected 2010/11 MLS* thresholds	Tier 1	Tier 2	Tier 3
Singles	<\$75,000	<\$75,001 – \$90,000	<\$90,001 – \$120,000	>\$120,001
Couples	<\$150,000	<\$150,001 – \$180,000	<\$180,001 – \$240,000	>\$240,001
MLS*	1%	1%	1.25%	1.50%
Private health insurance rebate				
▪ Up to 65 years	30%	20%	10%	0%
▪ 65 – 69 years	35%	25%	15%	0%
▪ 70 years or over	40%	30%	20%	0%

* Medicare levy surcharge (MLS) rates if individual opts out of private health insurance.

Existing arrangements will remain unchanged if your income is less than \$75,000 per annum (single) or \$150,000 per annum (families).



Relying on the Age Pension

The budget will also increase assistance for pensioners by \$32.49 per week, to \$336.68 per week for singles on the full rate and \$10.14 per week to \$507.50 (combined) per week for couples on the full rate, from 20 September 2009.

However, the increase is offset by the news that the rate at which the pension is reduced for pensioners with private income will increase from 40 cents to 50 cents in the dollar, at the same time. This means that payments to pensioners will be reduced by 50 cents for each extra dollar of private income above the threshold allowed by the pension income test.

Under the new arrangements, the pension will be paid to single people with a private income of up to \$38,693 per annum instead of \$47,444, and couples will be able to earn \$59,228 (combined) per annum before their pension cuts out, down from \$72,423.

First home buyers' reprieve

The First Home Owners Boost will be extended for six months and then abolished after 31 December 2009. The boost will also be halved in the last three months of the scheme.

For more information on the Federal Budget 2009/10 and its implications for your personal circumstances, please contact us today.

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