

Superannuation

Reducing the Concessional Contribution caps

The concessional contributions cap is proposed to be halved to:

- \$25,000 per annum for those under age 50; and
- \$50,000 per annum for those over 50 for the 2009-2010, 2010-2011 and 2011-2012 years.

This comes into effect from 01/07/09, limiting the ability to salary sacrifice into super for higher income earners.

'Transition to Retirement' pensions remain, however the strategy will be somewhat limited with the transitional concessional cap of \$100,000 for those aged 50 or older also being halved from 2009-2010 to \$50,000 and will cut out from 1 July 2012 as originally planned. 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. Similar arrangements were applied when the concessional contributions cap was first introduced.

The annual cap on non-concessional contributions remains at \$150,000 for 2009-2010. In the future, the cap will be calculated as six times the level of the indexed concessional contributions cap.

We have spoken to many of you in the last week and encouraged you to contribute early in case of changes. Now that we know the changes do not occur until 1 July 2009, those that did not get their contributions in by yesterday now have until 30 June to do so.

*Those that can take advantage of the current higher concessional contribution cap limits should take advantage of them between now and 30 June 2009, if they haven't already done so. **The tax free status of lump sums, and account based pensions from age 60 remains intact, so super is still a very attractive vehicle for saving for retirement.***

The reduction in cap limits does reduce the effectiveness of the transition to retirement strategy whereby workers aged 55 or more salary sacrifice their salary into their superannuation fund whilst drawing a tax-concessional or even tax-free pension (for those aged 60 and up) from their super savings. Whilst the strategy is still relevant, the reduced cap to \$50,000 limits the extent of its use for the higher income earners.

It was a relief to see non-concessional contribution caps unaffected.

Account-based pension – further drawdown relief

The minimum payment amounts for account-based pensions will be halved for 2009-2010.

The minimum payments will be even lower from 1 July 2009 as the halved percentage will be calculated on reduced account balances giving retirees an opportunity to recoup losses. With the income test taper becoming a little harsher, this could be an added benefit for part Age pensioners.

Minimum payments for 2008-2009 and 2009-2010

Age	Percentage factor
Under 65	2.0%
65-74	2.5%
75-79	3.0%
80-84	3.5%
85-89	4.5%
90-94	5.5%
95 or more	7.0%

Temporary reduction of the Government co-contribution from 1 July 2009 to 30 June 2014

The Government will temporarily reduce the matching rate and maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions, with effect from 1 July 2009. Under this measure, the matching rate and corresponding reduction will be:

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Maximum Co-Contribution payable	\$1,000	\$1,000	\$1,000	\$1250	\$1250	\$1250
Reduction for each \$1 of total income above the shade out threshold	3.333 cents	3.333 cents	3.333 cents	4.167 cents	4.167 cents	4.167 cents

Co-contribution eligibility will apply to all those who earn less than \$30,342, and then reduce until it cuts out for those earning over \$60,342 (based on shade out thresholds for 2008/2009).

Co-contribution is still an extremely attractive option and should be taken up by all those who earn up to \$60,342.

Source: Challenger 2009-2010 Federal Budget Report, and Colonial First State First Tech Budget Briefing May 2009

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