AON MASTER TRUST

FEDERAL BUDGET 2009 SUMMARY

Many of the decisions announced on Tuesday night had been leaked prior to the budget, but without all the details.

The 2009 Federal Budget includes both major spending initiatives and some savings. The budget savings mostly have a negative affect on higher income earners.

In this report, Aon focuses on the key issues that may affect you. We cover the budget announcements relating to superannuation, pensions, health insurance and employee benefits.

Superannuation

Concessional super contributions

Budget decision: The maximum concessional (pre-tax) contribution (including salary sacrifice contributions) for people aged 50 and over has been reduced. From 1 July 2009, the maximum goes down from $100,000 to $50,000. From 1 July 2012, the maximum further reduces to $25,000 (indexed annually).

For the under 50s, the maximum concessional contribution reduces from $50,000 to $25,000 (indexed annually).

What this means: If you're over 50 and currently making concessional contributions, either to top up your super or as part of a transition to retirement strategy, you need to make sure you don't exceed the new limit.

It's now more important than ever to start planning early for retirement.

There are still tax advantages in salary sacrificing and transition to retirement pensions, but not to the same extent as before.

Employers who continue to make Superannuation Guarantee (SG) payments for employees earning more than $152,720 pa may need to review the impact of the new limit on their executives.

Non-concessional super contributions

Budget decision: The limit for non-concessional (after tax) super contributions will remain at $150,000 for 2009-10. In subsequent years, it is expected that the non-concessional limit will be calculated as six times the concessional limit that applies for under 50 year olds.

What this means: You can still make a substantial after-tax contribution into super and the ability to make three years' payment in advance remains.

Co-contributions

Budget decision: Currently the maximum government co-contribution is $1,500 for employees earning less than $30,342 pa who make an after-tax contribution of $1,000 to their super. From 1 July 2009, the maximum government co-contribution will reduce to $1,000.

The government co-contribution will start to increase again in 2012, going up to $1,250 and then in 2014 going back up to $1,500.

The income threshold amounts are not changing.

What this means: You still have a chance to get the higher co-contribution this year if you make your after-tax super contribution before 30 June 2009.

The government co-contribution remains a great way to increase your super. The government will still give you a $1 for every $1 you contribute after-tax if you earn less than $30,342. That's a great return on your investment.

Small and lost super accounts

Budget decision: Lost super accounts with balances of less than $200 and those inactive for five years or more where the fund can't find the owner will be sent to the government as unclaimed monies. This will take effect from 1 July 2010.

What this means: Now is a good time to make sure you consolidate your super. Find any lost or small accounts you have and roll them into the one fund. This also helps save on fees.

While you will be able to claim back any money sent to the government, this could be very time consuming.

Super pensions

Budget decision: The super pension draw down relief for account-based pensions announced earlier this year and applying to the 2008-09 financial year has been extended for 2009-10. That is, the minimum pension requirement has been reduced by 50 per cent.

What this means: By taking a smaller pension you can reduce the impact on your pension account balance and help to preserve more of your capital. This will extend the life of your pension.

Trans-Tasman retirement savings portability

Budget decision: The Government has signed an in principle agreement that will allow people to transfer their super savings from Australia to New Zealand and vice versa.

What this means: It will be easier to move between Australia and New Zealand for work or in your retirement.

Pensions

Change in pension eligibility age

Budget decision: The qualifying age for the age pension and for the Commonwealth Seniors Health Card will increase to 67 by 2023 for both men and women. The transition to the higher eligibility age will commence in July 2017, with the qualifying age increasing by 6 months every 2 years from that date until 2023.

Current age	New age pension eligibility age
55.5—57	65.5
54—55.5	66
52.5—54	66.5
52.5 or younger	67

What this means: For those considering retirement there will be an increase in the age at which they can access the age pension. It may result in some people having to defer their retirement and work longer than they had otherwise planned.

Pension increases

Budget decision: As expected the age pension will be increased. Single aged pensioners will receive $32.49 more a week and couples will get an extra $10.14 a week (per couple).

There will also be a simplification of pension payments. The many existing allowances and supplements are being replaced by a single fortnightly supplement.

What this means: This increase in the age pension is very welcome. However, the age pension still does not provide a comfortable income in retirement for most people. Superannuation remains a key strategy to help provide for your retirement.

Changes to pension income test

Budget decision: Changes to the pension income test will apply from 20 September 2009. The Government will increase the rate at which the pension is reduced from 40 cents to 50 cents for each additional dollar of private income.

Special transitional rules will apply to ensure all existing pensioners will not be worse off.

What this means: Many pensioners who also receive an income from other sources will now receive a faster taper of their pension payment. It is anticipated that around 70% of pensioners will be better off after both the changes to the income test and to the pension amount.

Health insurance

Medicare levy

Budget decision: From 2008-09, the income threshold where the Medicare levy starts to apply will increase to $17,794 for individuals (up from $17,309 in 2007-08) and to $30,025 for individuals in families (up from $29,207 in 2007-08). That is, an individual earning less than $17,794 will not have to pay the Medicare levy.

The increase in the threshold for each dependant child will also increase to $2,757 (up from $2,682). The Medicare levy low-income threshold for people on a super pension but below age pension eligibility age will also increase from 1 July 2008 to $25,299 (up from $22,922).

The Medicare levy surcharge will increase for higher income earners. It will now be charged at three different rates, depending on your income (see table).

Medicare levy surcharge from 1 July 2010*

	Income tier 0	Income tier 1	Income tier 2	Income tier 3
Singles	$0—$75,000	$75,001—$90,000	$90,001—$120,000	$120,001+
Families	$0—$150,000	$150, 001—180,000	$180,001—240,000	$240,001+
Medicare levy surcharge	nil	1.00%	1.25%	1.50%

*Applies for people without private patient hospital cover.

What this means: Low-income individuals and families remain exempt from paying the Medicare levy. Additionally, people on a super pension but below age pension eligibility age do not pay the Medicare levy if they do not have an income tax liability.

Private health insurance incentives

Budget decision: Higher income earners will face an increased penalty if they do not have private health insurance and will receive a lower (or no) rebate. From 1 July 2010, the private health insurance rebate will be calculated using a number of income tiers.

Private health insurance rebate from 1 July 2010*

	Income tier 0	Income tier 1	Income tier 2	Income tier 3
Singles	$0—$75,000	$75,001—$90,000	$90,001—$120,000	$120,001+
Families	$0—$150,000	$150, 001—$180,000	$180,001—$240,000	$240,001+
Rebate — aged less than 65	30%	20%	10%	nil
Rebate — aged 65 to 69	35%	25%	15%	nil
Rebate — aged 70 or over	40%	30%	20%	nil

*To qualify for the private health insurance rebate you need to have hospital and/or ancillary private health insurance with a registered health fund.

What this means: There is now an even greater incentive for higher income earners to take out private health insurance given the increased Medicare levy surcharge. However, the insurance will cost more given the reduction in the rebate.

For example, from 1 July 2010 an individual earning $130,000 per annum with a total annual private health insurance premium of $2,500 would incur an additional cost of $750 in lost rebate. If they do not have private health insurance they would pay an additional $650 in Medicare levy surcharge.

Employee benefits

Employee share plans

Budget decision: If you purchase shares valued at more than $1,000 under an employee share plan, you can no longer defer tax on any discount you receive (ie the difference between the market value of the shares at the time of purchase and the price you pay).

Tax on the discount must now be paid in the year the shares are purchased.

In addition, if you purchase shares valued at $1,000 or less under an employee share plan and your income is $60,000 or more you now have to pay tax on the discount.

These changes are effective immediately.

What this means: Employees earning $60,000 or more will need to consider the tax implications of participating in an employee share plan.

Paid parental leave

Budget decision: From 1 January 2011, the Government will introduce a paid parental leave scheme. The Government funded scheme will provide eligible parents with up to 18 weeks of leave at the Federal minimum wage, currently $543.78 per week. This will be paid as taxable income via their employer. Parents who choose to receive their paid parental leave entitlements will be ineligible for the baby bonus.

What this means: Under current Superannuation Guarantee (SG) legislation, salary paid while on parental leave and other ancillary leave payments are included in ordinary time earnings. This means, employers would be required to pay the 9% super contribution for employees receiving the parental leave payment. It is expected the Government will need to clarify the legislation so that SG contributions will not apply to the paid parental leave payments.

To understand how the budget will affect you and your financial situation, please talk to your financial adviser. If you do not have an adviser but would like to be put in touch with one, or if you want to speak to an Aon Master Trust representative, see the contact details below.

contact us

email contactaon@pillar.com.au
phone 1300 880 588
fax 1300 267 582
mail PO Box 1949
Wollongong NSW 2500

aonmastertrust.com.au

May 2009 ACON344

AON