FEDERAL BUDGET 2021

The Federal Budget handed down on 11 May 2021 focuses on initiatives designed to maintain and grow Australia's post-pandemic economic recovery, which has been better than expected. Most of the superannuation and retirement measures announced are either changes or adjustments to existing measures. While these changes are not yet legislated, we wanted to let you know how these may affect you.

Snapshot of changes

- Removal of $450 monthly income threshold for super contributions
- Higher withdrawal limit for First Home Super Saver Scheme
- Removal of super contribution 'work test' for those aged between 67 and 74
- Transfer of unclaimed super to KiwiSaver accounts
- Lower age threshold for super downsizer scheme
- Legacy Product Conversions
- Pension Loan Scheme – No negative equity guarantee

The government will remove the $450 minimum monthly income threshold, which prevents many low-paid workers, particularly women, from receiving compulsory super contributions.

The maximum withdrawal threshold for the existing First Home Super Saver Scheme will be increased to $50,000, from $30,000. This scheme doesn't allow first home buyers to withdraw any of their compulsory super savings; only voluntary savings qualify for release.

In another change to an existing measure, retirees who downsize their family home will be able to contribute $300,000 to superannuation ($600,000 for couples) at age 60, down from 65.

The budget will abolish the work test, which requires those aged between 67 and 74 to be gainfully employed for at least 40 hours over 30 consecutive days during the financial year before concessional or non-concessional superannuation contributions can be made.

It's important to remember that the budget measures outlined need to be legislated before they come into effect. It's the same for the package of super measures announced in last year's mid-pandemic October budget which remains in Parliament and is still subject to debate.

Further information on some of the measures below can be found in the Treasury budget fact sheets at **budget.gov.au.**

For super members

Removal of $450 monthly income threshold

The $450 monthly threshold prevents an estimated 300,000 low-paid workers from receiving mandatory employer super contributions; 63% are women. The threshold's removal will ensure this group is paid super.

Proposed start date: 1 July 2022

New threshold for First Home Super Saver Scheme

The government has proposed increasing the maximum amount of voluntary contributions aspiring home buyers can take from the First Home Super Saver Scheme to $50,000. The scheme allows people to make voluntary contributions to super to save for their first home. These contributions are currently capped at $15,000 per annum and $30,000 in total.

Salary sacrifice contributions into a super fund up to $50,000 will be allowed under the proposed changes. For couples, both individuals will be able to utilise their caps up to a maximum of $100,000.

This scheme relates to voluntary contributions only. First home buyers cannot withdraw any part of their compulsory super savings under the scheme (super contributions made on their behalf by their employer).

Proposed start date: 1 July 2022

Work test abolished for those aged between 67 and 74 years

The budget will also abolish the work test, which requires those aged between 67 and 74 to be gainfully employed for at least 40 hours over 30 consecutive days during the financial year before concessional or non-concessional super contributions can be made.

If you're in this age group, you'll be allowed to make or receive non-concessional (including under the bring-forward rule) or salary sacrifice contributions without meeting the work test, subject to existing contribution caps. You will still have to meet the work test to make personal deductible contributions.

The existing $1.6 million lifetime contributions cap will continue to apply (increasing to $1.7 million from 1 July 2021). The annual concessional and non-concessional caps will also continue to apply.

Proposed start date: 1 July 2022

Transfer of superannuation to the KiwiSaver Scheme

The government will provide $11 million over four years from 2021-22 (and $1 million per year ongoing) to the Australian Taxation Office to administer the transfer of unclaimed super directly to KiwiSaver accounts (the New Zealand equivalent of Australian super funds).

Proposed start date: 1 July 2021

For retired members

New age threshold for downsizers

Retirees who downsize their family home will be able to contribute $300,000 to superannuation ($600,000 for couples) at age 60, down from 65.

This contribution is classified as a non-concessional contribution and is allowed in addition to existing super rules and caps, including the $1.6 million lifetime transfer balance cap (to rise to $1.7 million on 1 July 2021). The measure is exempt from the work test, but it isn't exempt from the transfer balance cap.

Proposed start date: 1 July 2022

Legacy product conversions

A two-year period will be provided for conversion of market-linked, life-expectancy and lifetime pension and annuity products. Importantly, it won't be compulsory for you to take part.

Retirees with these products will be able to completely exit these products by fully commuting the product and transferring the underlying capital, including any reserves, back into a super account in the accumulation phase. From there, you can start a new retirement product, take a lump sum benefit, or retain the funds in that account.

Any commuted reserves won't be counted towards your concessional contribution cap and won't trigger excess contributions. Instead, they'll be taxed as an assessable contribution of the fund (with a 15% tax rate), recognising the prior concessional tax treatment received when the reserve was accumulated and held to pay a pension.

Products covered:

- Market-linked, life-expectancy and lifetime products which first commenced prior to 20 September 2007 from any provider, including self-managed superannuation funds (SMSFs).

Products NOT covered:

- Flexi-pension products offered by any provider.
- Lifetime products offered by large APRA-regulated defined benefit schemes or public sector defined benefit schemes.

Proposed start date: 1 July 2022

Pension Loan Scheme

The Pension Loans Scheme's (PLS) flexibility is being improved. This will provide access to advance payments by allowing you to access up to 26 fortnights' worth of top-up payments as a lump sum and introducing a No Negative Equity Guarantee. The scheme will provide immediate access to lump sums of around $12,000 for singles and $18,000 for couples.

No Negative Equity Guarantee will mean that borrowers under the PLS, or their estate, won't owe more than their property's market value in the rare circumstance their accrued PLS debt exceeds their property value. This brings the PLS in line with private sector reverse mortgages.

Proposed start date: 1 July 2022

Previous Budget measures scheduled to come into effect on 1 July, 2021

The Your Future Your Super measures proposed in last October's budget, including a measure that will 'staple' you to your current super fund and apply performance testing to many funds, are scheduled to come into effect on 1 July. However, as the legislation is still before Parliament, the final scope of the proposed reforms and their implementation date is not yet known.

More information

The full 2021 Federal Budget is available at **budget.gov.au**.

If you have questions about the Budget and how it may affect you, our team is here to help. Call the Helpline on **1800 640 886** any time from 8.00am to 7.00pm AEST/AEDT, Monday to Friday.

The changes mentioned above are yet to be legislated and have the mechanics ironed out. Media Super will let members know once any changes are made to the legislation that could affect them.