Quarterly Newsletter – March 2015

A review of the Intergenerational Report for 2015

On Thursday 5th of March, Treasurer Joe Hockey released Australia's fourth intergenerational report (IGR); a snap-shot analysis of how Australia is tracking now and projections of how it will be in 40 years' time. A number of issues are highlighted in this report, and the likely Government response to the IGR may have a number of implications for the retirement, superannuation and pension sectors.

Superannuation and Income Streams

The number of Australians over 65 is expected to double by 2055. This will add significant pressure to health, pension and aged care costs for the Government. As the population is growing older and living longer, this will require a larger super balance for retirees. Current retirees face longevity risk; the risk of out-living their money and turning to reliance on the Government Age Pension. As there is likely to be less access to Government support in the future, this is becoming a prominent issue.

The mooted changes to the tax treatment of Superannuation (to be addressed in a forthcoming white paper on tax) and incrementally increasing the Superannuation Guarantee rate (see next page for details) are some of the measures being proposed to address these risks. The preservation age is also speculated to change to 65 so that access to superannuation is delayed in attempt to shift the dependence on the Government Age Pension to private funding sources.

Age Pension Implications

In last year's budget, the Government discussed changing the ways the Age Pension was to be indexed; from the Average Weekly Ordinary Times Earnings (AWOTE) to the lower Consumer Price Index (CPI). This will slow the rate of increase of the pension, leading to a reduction in the pension payments relative to wages (and some budget savings). The IGR estimated that this change to CPI could be implemented then reverted to AWOTE in 2028-29, after the budget is predicted to return to a surplus of 1 per cent of GDP.

The Age Pension access age is expected to increase in 2017 to 65.5 years and then in six-month increments every two years until it reaches the age of 70 by 1 July 2035. The Government has also discussed widening the scope of the means test to include the Family Home – however at this stage the aged pension has escaped much of the scrutiny attracted by other payments.

Annual changes to Superannuation Thresholds

Thresholds that are not changing for 2015/16:

SG contribution rate	9.5%
Concessional contributions cap	$30,000 or $35,000 if aged 49 or over on 30/6/2014
Non-concessional contributions cap	$180,000 or $540,000 over 3 years if under 65

On 1 July 2015, the preservation age increases to age 56 for those born 1/7/1960 to 30/6/1961

Tax and Superannuation Laws Amendment

Excess Non-Concessional Contributions Legislation Amendment

Changes to this legislation will apply to non-concessional contributions made during the 2013/14 tax year and beyond. Previously, excess non-concessional contributions were subject to an additional penalty of 47% tax. Under the new legislation, the ATO will make an assessment against the non-concessional contributions cap and if excessive, will issue a determination to the individual. This will include the amount of excess contributions and an allowance for earnings on those contributions (called 'associated earnings'). The individual can make an election within 60 days to:

- Withdraw the excess contributions plus 85 per cent of the associated earnings amount from their nominated super fund. The calculated earnings will then be included in the individual's assessable income and they will receive a 15 per cent tax offset.
- Not withdraw from their super because they have $0 balance. The associated earnings amount will then be included in the individual's assessable income.
- Not withdraw from their super for another reason. The ATO will then apply excess non-concessional contributions tax to the contributions at 49%.

Superannuation Guarantee Rate (SG)

The SG rate will stay at 9.5% for four years until 30 June 2018. It will then increase by 0.5% a year until it reaches 12% on 1 July 2023.

Sincerely,

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