



Super Reform is on the Way

Federal Budget 2006 Update

Presentation to the Consultative Committee
Damian Hurley



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2006 Seminar

Agenda

Budget Overview

Tax and Social Security

Superannuation Changes

UniSuper Submission

Budget Summary



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Budget overview of personal tax and Social Security changes

- › Personal income tax changes from 1 July 2006
- › Changes to marginal tax rates and thresholds
 - \$6,000 to \$25,000 15%
 - \$25,001 to \$75,000 30%
 - \$75,001 to \$150,000 40%
 - \$150,000+ 45%
- › Social security changes from 20 September 2007
 - Reduction in asset test taper to \$1.50 per \$1,000 assets
 - Asset test will cut out at \$783,500 (homeowner couple)
 - Asset test will cut out at \$494,000 (homeowner single)
 - 50% exemption for complying income streams abolished



Budget overview – The super revolution

- › Compulsory payment of superannuation benefits after age 65 will be abolished
- › The current age-based deductible contribution limits will be removed
- › A cap on 'deductible contributions' (employer and salary sacrifice) of \$50,000
- › Transitional arrangements for members over 50 years of age, until 2011/12
- › Undeducted (personal after tax) contributions will be limited to \$150,000 p.a.
- › The SG will continue to apply for eligible employees up to age 70
- › Contributions will be deductible to age 75



Budget overview – The super revolution (cont)

- › Superannuation benefits paid to a person aged over 60 will be tax free – lump sum or pension
- › Benefits paid for members 55-59 to be taxed, but on a different basis
- › Reasonable Benefit Limits (RBLs) will be abolished
- › Changes to the tax arrangements for Employer (ETPs) and the removal of the ability to rollover these payments to a superannuation fund
- › New Simple Pension structure



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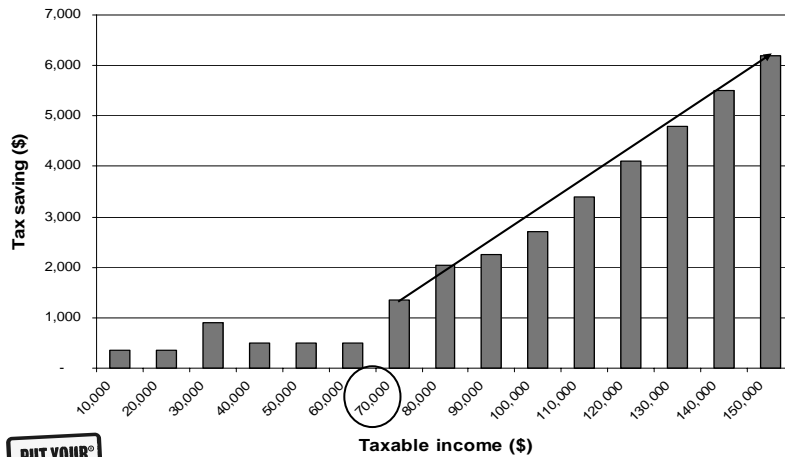
Personal income tax cuts

| Current tax thresholds | Tax rate | New tax thresholds | Tax rate |
|------------------------|----------|--------------------|----------|
| Income range \$ | (%) | Income range \$ | (%) |
| 0-6,000 | 0 | 0-6,000 | 0 |
| 6,001-21,600 | 15 | 6,001-25,000 | 15 |
| 21,601-63,000 | 30 | 25,001-75,000 | 30 |
| 63,001-95,000 | 42 | 75,001-150,000 | 40 |
| 95,001+ | 47 | 150,001+ | 45 |



Personal income tax cuts

Tax saving from 2006/07 Budget



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Impact of personal tax cuts

- › All taxpaying income earners will receive a higher net income
- › Only 2% of taxpayers will pay top MTR in 2006/07
- › A range of tax strategies will be less effective in 2006/07
 - salary sacrifice, gearing, salary packaging

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Offsets

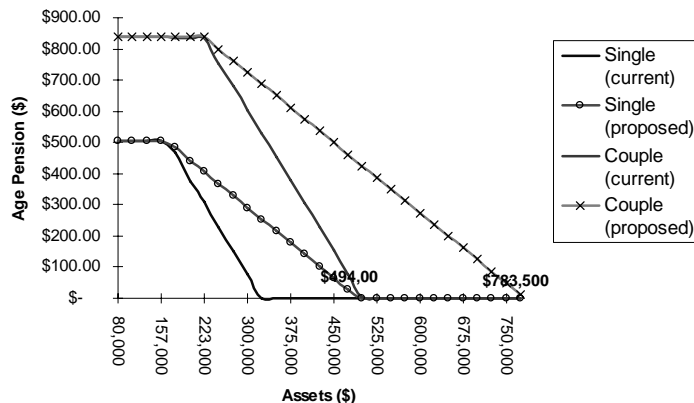
- › Low income tax offset
 - Low income tax offset increased from \$235 to \$600
 - Increase in amount an individual can earn before paying tax from \$7,567 in 2005/06 to \$10,000 from 2006/07
 - The income level before offset phases out increases from \$21,600 to \$25,000 (phases out completely at \$40,000)

- › Family Tax Benefit (Part A)
 - Families can earn \$40,000 (currently \$33,361) without FTB (Part A) being reduced
 - Eligibility for Large family supplement extended to families with three children



Social security – assets test more generous

- From 20 September 2007, a pensioner will only lose \$1.50 of fortnightly pension income per \$1,000 of assets above the relevant threshold.



Social security – abolition of 50% exemption

- › From 20 September 2007, **new** complying income streams are no longer 50% asset test exempt
- › Asset test exemptions for **existing** complying income streams are grandfathered

Impact

- › Opportunity to acquire complying income streams pre 20 Sept 2007 (re super changes) to shield assets from assets test
- › Little demand for complying products post 20 Sept 2007
- › Existing investors will continue to have legacy issues with any complying product



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Super Reform on the Way – Critical Dates

Proposed



Super Reform on the Way – Critical Dates

9 May 2006

Budget announcement – “A Plan to Simplify and Streamline Superannuation” published

10 May 2006 – Date of effect

No compulsory cashing of benefits
Limits on undeducted contributions - \$150,000



Super Reform on the Way – Critical Dates

9 August 2006

Close of submissions on super changes

5 September 2006

Treasurer announces results of industry/community consultations



Super Reform on the Way – Critical Dates

1 July 2007

Tax free benefit payments over age 60
RBLs abolished
Deductible contribution limit - \$50,000
New pension rules

20 September 2007

New complying pensions lose 50% Asset Test Exemption
Age Pension Asset Test taper increased

Super now the preferred savings and retirement vehicle!



Proposed superannuation changes

- › Tax free benefit payments over age 60
 - › RBLs abolished
 - › No compulsory cashing of benefits
 - › Age-based deduction limits replaced by deductible contribution limit - \$50,000
 - › Limits on undeducted contributions - \$150,000
 - › New pension rules
 - › Restrictions on employer ETPs
 - › Tax File Numbers must be supplied to allow funds to accept contributions
- } Super now preferred savings vehicle



Cashing of Super Benefits

- › Abolition of cashing rules for members over age 65
- › There will be no forced payment of superannuation benefits
- › Members will be entitled to leave super in accumulation phase indefinitely
- › Earnings will continue to be taxed at 15% if not in pension phase



Cashing of Super Benefits (Cont)

Impact of abolition of cashing rules

- › Superannuation as an estate planning vehicle is now possible
- › Retirees are encouraged to commence a pension to trigger tax exempt status of funds compared to the accumulation phase (up to 15% tax on earnings)

Impact

- › People over age 65 on 10 May 2006 have the option to leave money until 1 July 2007 then withdraw tax-free



Cashing of Super Benefits (Cont)

- › What if I have already started a pension?
 - You may roll your **Allocated Pension** back into super if don't the need pension income
 - Won't have to satisfy the work test even if over age 65
- › What about complying pensions?
 - The **Indexed Pensions** and **Term Allocated Pension** cannot be rolled back into super



Tax-free benefits over age 60 from 1 July 2007

- › Superannuation benefits paid as a lump sum or as pension to a person aged over 60 will be tax-free
- › Pensions commencing prior to 1 July 2007 would become tax exempt from that date
- › Pensions commencing before age 60 will automatically become tax exempt once the pensioner reaches age 60



RBL's abolished from 1 July 2007

- › Reasonable Benefit Limits (RBL's) abolished
- › No more excess benefits



Deductible contribution limit - \$50,000

- › Age-based deduction limits will be removed from 1 July 2007
- › Tax file number must be supplied to allow funds to accept deductible or undeducted contributions
- › A new \$50,000 deduction limit will apply to all persons regardless of age
- › Under transitional rules, individuals aged 50 and over will be entitled to a deduction limit of \$100,000 pa until 30 June 2012
- › Employer Contributions will be allowed to age 75



Undeducted Contributions

- › Personal undeducted contributions to be limited to \$150,000 pa
- › Between 10 May 2006 – 30 June 2007 may contribute \$1 million of undeducted contributions
 - Must meet the work test
- › The Government will allow the cap to be averaged over 3 years
 - Possible to contribute maximum \$450,000 from 1 July 2007



Death Benefits

Dependant

Spouse, including defacto,
Child less than 18 years,
Any financially dependent person
Interdependency relationship

Dependant

- › A lump sum death benefit paid to a dependant will be tax-free.
A reversionary pension will be tax-free where the pensioner or reversionary spouse is aged 60 or more

Non -dependant

Child over 18 years and not
financially dependent

Non-dependant

- › Only a lump sum death benefit can be paid to a non-dependant and will be taxed at 16.5% on the post-June '83 component



Employer ETPs

- › Now only two components – exempt and taxable
- › Exempt component = Post June '94 invalidity and pre-July '83
- › Taxable component = Post June '83
 - Less than \$140,000 taxed at 15% over age 55 or 30% under age 55
 - Over \$140,000, taxed at top marginal rate
- › Employer ETPs no longer able to be rolled into superannuation
- › Employer may reconsider voluntary redundancy packages



New simplified pension from 1 July 2007

- › Payments of a minimum amount to be made at least annually
- › Pensioners able to take out more than the minimum or cash out the whole pension
- › The reversionary pension can only be paid to a dependant. The pension can be cashed as a lump sum to a non-dependant or the estate. Any UniSuper Pension that commenced before 1 July 2007 will be deemed to meet the new pension requirements



New pension requirements

- › Current pension standards to be replaced with new standards
- › These new standards are:
 - Lifetime payments are allowed
 - Payments of a minimum amount to be made at least annually
 - New minimum but no maximum

| Age | % of Account Balance |
|---------|----------------------|
| 55 - 64 | 4 |
| 65 - 74 | 5 |
| 75 - 84 | 6 |
| 85 - 94 | 10 |
| 95 + | 14 |



Contribution Splitting

Pre Budget Announcement

- › Contribution Splitting was attractive to a member who:
 - Had a benefit above the no/low tax threshold;
 - Had a high account balance that may exceed the RBL; and
 - Had a spouse who does not have one or both of the above

- › The aim of Contribution Splitting in this environment is to:
 - Spread the superannuation to use both no/low tax thresholds;
 - Both RBLs; and
 - Reduce tax in retirement by income splitting



Contribution Splitting (Cont)

Post Budget

- › Contribution Splitting will still be attractive to a member who:
 - Has a significant difference in age between them and their spouse;
 - Wishes to access the Pension by shifting super to a younger spouse;
 - Is concerned about Legislative Risk; or
 - Is going to retire before age 60

- › No longer relevant to members over age 60

- › New contribution limits (deductible and undeducted)

- › No tax issue with “overfunding” where member retires after age 60



Transition to Retirement (TTR)

Pre Budget

- › The TTR strategy allows members between age 55 – 65 who wish to reduce their hours worked to access their superannuation benefit as a non-commutable pension
- › The TTR strategy also benefits high income earners who salary sacrifice and supplement foregone salary with tax effective pension income without reducing working hours
- › The only limits on what may be used each year is the prescribed minimum and maximum drawdown factors in an AP where that product is used



Transition to Retirement (TTR) (Cont)

Post Budget

- › No more than 10% of account balance able to be drawn down each year
- › For high income earners who wish to incorporate salary sacrifice, may be ineligible for the higher transitional MDC limit of \$100,000 pa
- › Limited to taxable contributions up to \$50,000 pa
- › No tax on the pension over age 60
- › RBLs abolished
 - No excessive component, and no subsequent reduction in the 15% offset, for members' aged 55 -59



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UniSuper successfully lobbies Treasury

Outcomes of UniSuper submission to Treasury

- > \$50,000 deductible contribution limit
 - Exemption for Defined Benefit members
 - \$50,000 limit to be indexed

- > Undeducted contributions
 - Contribute amounts greater than \$150,000 per year
 - Rules relating to 3 year average provisions too restrictive
 - May now contribute up to \$1 million until 1 July 2007



Outcomes of UniSuper submission to Treasury (Cont)

- › Overseas Transfers
 - Until 1 July 2007 may transfer \$1 million tax free
 - After 1 July 2007, up to \$450,000 tax free under age 65

- › Complying Pensions
 - Including UniSuper indexed, commercial rate and term allocated pensions
 - Pensions purchased before 20 September 2007, will retain Asset Test Exempt status



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Budget Summary

- › A lack of detail and no legislation yet
- › Significant simplification of super maze
- › Super is now the preferred saving and retirement vehicle
- › You can keep your money in super indefinitely
- › Potential flexibility in the new pension regime
- › Tax relief for pensioners



Your questions are welcome

