Federal Budget 2021-22

What it means for your super

This year's federal budget includes a number of announcements designed to benefit super members. The key package *More flexibility for older Australians* contains measures to make it easier for people to contribute to super in later years, while other changes include removing the $450 per month threshold for Super Guarantee eligibility and increasing the amount of super people can access through the First Home Super Saver Scheme.

These are announcements and not yet in force, with most of the new measures earmarked to come into effect from 1 July 2022. For more information, visit the Government's dedicated Budget 2021-22 website or speak with your financial adviser about how the measures may affect you.

More flexibility for older Australians

Older Australians, including self-funded retirees, will have greater flexibility to contribute to super and more opportunities to access the equity they've built up in their home.

Repealing the work test for voluntary super contributions

Currently, individuals aged 67 to 74 years can only make voluntary contributions (both concessional and non-concessional) to their super if they meet the work test or work test exemption.

To meet the work test you need to have done at least 40 hours of paid work in a consecutive 30-day period in the financial year you make the contribution. The work test exemption is available to individuals aged 67-74, who had a total super balance of less than $300,000 at the prior 30 June, and met the work test for the previous financial year. The exemption can only be applied once in a lifetime.

Under the proposal, those aged 67 to 74 years will be able 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). However, the work test will still apply to people in this age group who wish to make personal deductible contributions.

The measure will have effect from the first financial year after it is passed by parliament and receives Royal Assent, which is expected to be 1 July 2022.

In addition, from 1 July 2021, the total super balance cap will be indexed and increase from $1.6 million to $1.7 million. You're unable to make non-concessional contributions to super if you exceed the cap, so this increase will allow more people to contribute to their super after tax.

Downsizer contributions can be made from age 60

The downsizer contribution currently allows individuals aged 65 and over to make a one-off, post-tax contribution to their super of up to $300,000 per person ($600,000 per couple) from the proceeds of selling their home, without having it count towards the non-concessional contribution cap.

Effective 1 July 2022, the Government will reduce the eligibility age to 60, providing more options for older Australians who are saving for retirement.

For more information about eligibility and how to make a downsizer contribution, visit the ATO website.

Increasing flexibility of the Pension Loans Scheme

The Pension Loans Scheme is a voluntary, reverse mortgage-type loan available from Services Australia to help older Australians who wish to boost their retirement income by unlocking equity in their real estate assets.

The Government will introduce measures to improve the uptake of the Pension Loans Scheme from 1 July 2022 by:

- allowing participants to access up to two lump sum advances in any 12-month period, up to a total value of 50% of the maximum annual rate of the Age Pension (around $12,385 a year for singles and $18,670 a year for couples based on current pension levels);
- introducing a No Negative Equity Guarantee so borrowers will not have to repay more than the market value of their property; and
- raising awareness of the Pension Loans Scheme through improved public messaging and branding.

For more information about this measure visit the Department of Social Services website.

Legacy retirement product conversions

The Government will allow individuals to exit a specified range of legacy retirement products, for a two-year period. Currently, individuals are locked into certain products that restrict access to capital and limit flexibility of drawdowns. This measure will permit full access to all of the product's underlying capital, including any reserves, and allow individuals to potentially shift to more contemporary retirement products.

The measure will include market-linked, life-expectancy and lifetime products first commenced prior to 20 September 2007, from any provider including self-managed super funds. Flexi-pension products or lifetime products in a large APRA-regulated or public sector defined benefit scheme are not included.

Social security and taxation treatment will not be grandfathered for any new products commenced with funds from these legacy retirement products, and their reserves will be taxed at 15% when transferred but not count towards the concessional contributions cap. Individuals starting a new retirement product will be limited by the transfer balance cap rules.

The measure will have effect from the first financial year after it is passed by parliament and receives Royal Assent.

Superannuation Guarantee

Low-income Australians, particularly working women, will have more opportunity to grow their super with the removal of the income threshold for Super Guarantee (SG) contributions and an increase in the SG rate.

Removing income threshold for SG contributions

The Government will promote the retirement savings of lower income earners, particularly working women, by removing the minimum income threshold for SG contributions. This means that all working Australians earning less than $450 per month will now qualify for SG contributions, with an expected start date of 1 July 2022.

SG rate increasing to 10%

The 2021 Budget did not announce any change to the scheduled SG rate increase, currently legislated to rise from 9.5% to 10% on 1 July 2021. The SG rate will then increase by 0.5% per year from 1 July 2022 until it reaches 12% from 1 July 2025.

Supporting first home buyers

Those looking to get into the housing market will be able to withdraw more money from their super to put towards a home deposit.

First Home Super Saver Scheme

From 1 July 2022, the maximum amount that can be released under the First Home Super Saver Scheme will increase from $30,000 to $50,000. This release applies to voluntary concessional and non-concessional contributions made from 1 July 2017, up to the existing cap of $15,000 per year.

For more information about eligibility and how to apply for the First Home Super Saver Scheme, visit the ATO website.

Other superannuation announcements

Early release for victims of family and domestic violence

The Government announced it will not proceed with a proposed measure to extend early release of superannuation to victims of family and domestic violence. However, over four years from 2021-22 it will fund $998.1 million on Women's Safety initiatives to reduce, and support the victims of, Family, Domestic and Sexual Violence (FDSV) against women and children.

Improving the visibility of super assets in family law proceedings

The Government has announced that it will shortly introduce enabling legislation to build an electronic information sharing mechanism between the Australian Taxation Office (ATO) and the Family Law Courts to allow super assets to be readily identified during family law proceedings. Allowing the ATO to provide this information to the Courts will ensure more just and equitable super-splitting outcomes for members.

This measure was originally announced as part of the 2018 Women's Economic Security Statement, scheduled to commence on 1 July 2020. Other deliverables from this statement have been delayed due to COVID-19.

Consumer outcomes for super members

The Government will increase funding over 4 years from 2021-2022 to:

— *Super Consumers Australia* to support stronger consumer outcomes on behalf of superannuation fund members; and

— the *Australian Prudential Regulation Authority* to supervise and enforce increased transparency and accountability measures as part of Your Future, Your Super reforms (see below for more details).

Funding will be partially met through an increase in levies on regulated financial institutions.

Transfer of superannuation to the KiwiSaver scheme

The Government intends to provide funding to the Australian Taxation Office (ATO) to administer the transfer of unclaimed superannuation money directly to KiwiSaver accounts in New Zealand.

SMSF and closed life insurance retirement product conversions

The Government will establish an industry working group to develop and consult on the design of a streamlined mechanism to facilitate the transfer of policyholders from closed life insurance products and managed investment scheme products to new products.

Update on 2020 Budget announcements

In the 2020 Federal Budget released in October 2020, the Government announced the *Your Future, Your Super* package to implement key recommendations from the Productivity Commission review into superannuation and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

There was no mention in the 2021 Federal Budget of a deferral of these key superannuation reforms, including:

— reducing the number of super accounts held by Australians, by 'stapling' a single account to an individual;

— making available an ATO MySuper comparison tool to help people choose a super product that meets their needs;

— the introduction of a 'best financial interests' test to be applied by trustees in all expenditure decisions; and

— subjecting MySuper products to an annual performance test, with funds that underperform for two consecutive years not permitted to accept new members until their performance improves.

These are all currently proposed to take effect from 1 July 2021, however the legislation and supporting regulations are not final (and the regulations remain in consultation until 25 May 2021).

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