Budget 2021–22

Superannuation

More flexibility for older Australians

The 2021-22 Budget is giving older Australians, including self-funded retirees, greater flexibility to contribute to their superannuation and access their housing wealth if they choose to by:

- Repealing the work test for voluntary non-concessional and salary sacrificed superannuation contributions for those aged 67 to 74
- Improving the Pension Loans Scheme
- Extending access to downsizer contributions
- Giving older Australians the choice to move out of legacy retirement products.

Repealing the work test

Retirees aged 70 today potentially had 20 years or more in the workforce before compulsory superannuation was introduced in 1992.

That is why the Government will amend the work test rules to allow retirees who have not had the benefits of compulsory superannuation throughout their working lives to get more out of the superannuation system. This change also recognises that many retirees have accumulated savings outside of superannuation.

From 1 July 2022, individuals aged 67 to 74 will no longer be required to meet the work test when making, or receiving, non-concessional superannuation contributions or salary sacrificed contributions. These individuals will also be able to access the non-concessional bring forward arrangement, subject to meeting the relevant eligibility criteria.

The existing $1.6 million cap on lifetime superannuation contributions 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.

Access to concessional personal deductible contributions for individuals aged 67 to 74 will still be subject to meeting the work test.

This change builds on the Government's previous reforms to the age rules on superannuation contributions, further increasing the ability of older Australians to make contributions to their superannuation.

Improving the Pension Loans Scheme

The Government is increasing the flexibility and attractiveness of the Pension Loans Scheme (PLS) for senior Australians.

From 1 July 2022, the Government will introduce a No Negative Equity Guarantee for PLS loans and allow people access to a capped advance payment in the form of a lump sum.

No Negative Equity Guarantee

A No Negative Equity Guarantee will mean that borrowers under the PLS, or their estate, will not owe more than the market value of their property, in the rare circumstances where their accrued PLS debt exceeds their property value. This brings the PLS in line with private sector reverse mortgages.

Immediate access to lump sums under the PLS

Eligible people will be able to receive a maximum lump sum advance payment equal to 50 per cent of the maximum Age Pension. Based on current Age Pension rates, this is around $12,385 per year for singles, while couples combined could receive around $18,670.

A maximum of two advances totalling up to the cap amount are permitted in a year, for those who do not want to take an advance in one instalment.

Background on the PLS

The PLS is a voluntary, reverse mortgage type loan available to assist older Australians who wish to boost their retirement income by unlocking equity in their real estate assets.

Through the PLS, people can receive additional regular fortnightly payments with the payments accruing as a debt secured against their Australian property.

The PLS allows a fortnightly loan of up to 150 per cent of the maximum rate of Age Pension and an interest rate, currently set as 4.5 per cent, is charged.

PLS and age pensioners

Under the existing PLS, those with a full-rate Age Pension can get an annual income boost worth 50 per cent of a full Age Pension representing around $12,385 per year for singles and around $18,670 for couples. This is on top of receiving a full Age Pension.

The increased flexibility from 1 July 2022 will allow a full-rate age pensioner to access their entire annual PLS amount as a lump sum. This is on top of receiving a full-rate Age Pension.

Those with a part-rate Age Pension will also be able to access a lump sum worth 50 per cent of a full Age Pension. They will continue to be able to use the PLS to top-up their fortnightly pension through the PLS, such that their combined Age Pension plus PLS benefit (both lump sums and income stream) is up to 1.5 times a full-rate Age Pension payment.

PLS and self-funded retirees

Under the existing PLS, self-funded retirees of Age Pension age who do not receive any Age Pension can get an income boost over a year worth 1.5 times a full rate Age Pension payment. This represents around $37,155 per year for singles and around $56,011 per year for couples.

The increased flexibility from 1 July 2022 will allow a self-funded retiree to get a lump sum payment worth up to 50 per cent of a full rate Age Pension, representing around $12,385 per year for singles and around $18,670 for couples under the PLS each year.

This is on top of the other amounts they would receive under the PLS up to the maximum annual amount and means they will be able to bring forward one third of their maximum PLS payments if they choose to do so.

For more information about this measure visit the Department of Social Services website (dss.gov.au).

Extending access to downsizer contributions

From 1 July 2022, the minimum age for the downsizer contribution will be lowered from 65 to 60. This will allow Australians nearing retirement to make a one-off post-tax contribution of up to $300,000 per person (or $600,000 per couple) when they sell their family home.

This improves the flexibility for Australians to contribute to their superannuation savings, and may encourage people to downsize sooner and increase the supply of family homes.

Downsizer contributions can be made after the sale of a person's principal place of residence, held for a minimum of 10 years.

Downsizer contributions do not count towards the concessional and non-concessional contributions caps. People with balances over the transfer balance cap (which is $1.7 million from 1 July 2021) are also able to make a downsizer contribution, however the downsizer amount will count towards that cap when savings are converted to the retirement phase.

Legacy product conversions

The Government will simplify our retirement system by providing consumers with a temporary option to transition from legacy retirement products to more flexible and contemporary retirement products, promoting efficiency and reducing costs in the superannuation system.

Currently, individuals are locked into certain products that restrict access to capital and flexibility of drawdowns, preventing them from effectively using their retirement savings for health, aged care, and other large expenses in retirement.

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

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

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

The existing social security treatment that applies to the legacy product will not transition over for those who elect to take advantage of the conversion. Exiting a product will not cause re-assessment of the social security treatment of the product for the period before conversion.

Existing rules for income streams will continue to apply so that individuals starting a new retirement product will be limited by the transfer balance cap rules.

The existing transfer balance cap valuation methods for the legacy product, including on commencement and commutation, continue to apply.

Individuals who may want to take up the option to exit their legacy retirement product should consider seeking independent financial advice.

Products covered

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

Flexi-pension products offered by any provider, and lifetime products offered by a large APRA-regulated defined benefit schemes or public sector defined benefit schemes, will <u>not</u> be included.

Timing

Exits will be possible for two years commencing from the beginning of the first financial year after Royal Assent of the enabling legislation.

Example 1: Allowing access to reserves

Jill is 80 years old and has a lifetime pension provided by her SMSF. The lifetime pension, which commenced in 2003, has set annual payments and an associated reserve which supports the pension. Jill thinks that this product no longer suits her needs as she wants to be able to access her superannuation capital as required. Jill commutes the pension including the reserve back into an accumulation account in her SMSF before commencing an account-based pension with all the proceeds. The reserves transferred back to accumulation will be included as assessable income for her SMSF on which she will pay up to 15 per cent tax. Jill has space in her transfer balance cap to commence her new account-based pension. As the new amount of the account-based pension counts towards the age pension assets test, Jill's part age pension payment rate will be re-assessed. She now has immediate access to all the capital that was supporting the legacy product and more flexibility in how she draws down her superannuation.

Example 2: Interactions with the transfer balance cap

Mark is 75 years old and has a market-linked pension that first commenced in 2005. Mark commutes the market-linked pension back into an accumulation account, before commencing an account-based pension with some of those proceeds. However, Mark cannot move all the proceeds into an account-based pension because he does not have enough space in his transfer balance cap account. Mark retains the rest of the proceeds in the accumulation account, where earnings are taxed at a rate of up to 15 per cent.

Mark decided the exit is worthwhile to gain extra flexibility in accessing his superannuation.

Example 3: Social security treatment

Roberta is a 70-year-old single retiree who has a life-expectancy pension, with no reserve, that first commenced in 2007. Roberta commutes the pension back into an accumulation account with a non-SMSF provider. She then commences an account-based pension with the full balance as she has sufficient space under the transfer balance cap. Roberta was primarily exiting to give herself the option to access the monies as tax-free lump-sum benefits should she need to do so. Her age pension payments also increase because of the conversion. This is because Roberta's age pension amount is being set by the income test, and the deemed income on her new account-based pension is more favourable (a lower amount) than the income from her former life-expectancy pension.