



Federal Budget 2009/10: Are you affected?

Budget highlights

Key changes which may affect your financial planning strategies:

- Cuts to concessional contributions caps
- Super co-contribution reduced for now
- Relief for account-based pensions
- Good news for Commonwealth Seniors Health Card holders
- Keeping seniors in the workforce
- Relying on the Age Pension
- Taxation and private health insurance
- First home buyers' reprieve

Federal Treasurer Wayne Swan has presided over a record \$57.6 billion deficit in his second budget amid difficult economic conditions. With a return to surplus not forecast until 2015/16 and a \$210 billion collapse in government revenue over the next four years, budget spending has focused on infrastructure projects to stimulate employment and welfare support for pensioners.

Revenue raising to help fund these spending promises is largely targeted at higher income earners. Some of the key changes affecting retirees and those planning for retirement include the following:

Cuts to concessional contributions caps

Concessional contributions include compulsory employer superannuation contributions as well as salary sacrifice contributions. Also if you are self-employed, contributions for which you claim a tax deduction are classified as concessional contributions.

The government will cut the concessional contribution cap in half, from \$50,000 to \$25,000 for those under 50 years of age, from 1 July 2009. The transitional cap for people over 50 will also be halved from \$100,000 to \$50,000 until 30 June 2012, after which it will revert to the lower \$25,000 cap (indexed). However, you still have until 30 June 2009 to maximise your concessional contributions for the 2008/09 financial year.

Super co-contribution reduced for now

For those on lower incomes, the superannuation co-contribution matching rate will be reduced. This means that the maximum co-contribution payable will be reduced to \$1,000 for contributions



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Federal Budget 2009/10: Are you affected? continued

made in the 2009/10, 2010/11 and 2011/12 financial years. Don't forget that you have until 30 June 2009 to make personal contributions and receive a government co-contribution of up to \$1,500 for 2008/09.

Relief for account-based pensions

In a welcome move for retirees, minimum drawdown amounts on account-based pensions will be halved for the 2009/10 financial year. This means a self-funded retiree who is committed to drawing down a minimum annual pension of \$30,000 will now only have to draw a minimum of \$15,000 from their super savings in 2009/10. The change is designed to help self-funded retirees recover from capital losses associated with the global recession and reduce the need to sell assets at a loss in order to meet minimum withdrawal requirements.

Good news for Commonwealth Seniors Health Card holders

The government's proposal to include lump sum withdrawals and gross pension payments from superannuation funds in the income test for the Commonwealth Seniors Health Card has been dropped. However, the proposal to include amounts salary sacrificed into super in the income test will apply from 1 July 2009.

Keeping seniors in the workforce

Many Australians may be working longer under changes to the pension eligibility age. Under the new rules to be phased in by 2023, people born after 1 January 1957 will not gain access to the Age Pension until they are 67. The current eligibility age for the pension is 65 for men and 63.5 for women.

The table below shows how the pension age will change:

Date	New Age Pension age	Affects people born between:
1 July 2017	65 ½ years	1 July 1952 to 31 December 1953
1 July 2019	66 years	1 January 1954 to 30 June 1955
1 July 2021	66 ½ years	1 July 1955 to 31 December 1956
1 July 2023	67 years	From 1 January 1957

The move also foreshadows a recommendation of the Henry tax review, to lift the superannuation preservation age to 67 in the future, to bring it into line with the increased pension age. Current super preservation ages stand between 55 and 60, depending on your date of birth.

Taxation and private health insurance

High income earners will receive a lower tax rebate for their private health insurance premiums. The Medicare levy surcharge will also increase for some high income earners who choose to opt out of private health insurance.

Three new private health insurance tiers will be introduced from 1 July 2010, as shown in the following table:

	Projected 2010/11 MLS*	Tier 1	Tier 2	Tier 3
Singles	<\$75,000	<\$75,001 – \$90,000	<\$90,001 – \$120,000	>\$120,001
Couples	<\$150,000	<\$150,001 – \$180,000	<\$180,001 – \$240,000	>\$240,001
MLS*	1%	1%	1.25%	1.50%
Private health insurance rebate				
▪ Up to 65 years	30%	20%	10%	0%
▪ 65 – 69 years	35%	25%	15%	0%
▪ 70 years or over	40%	30%	20%	0%

* Medicare levy surcharge (MLS) rates if individual opts out of private health insurance.

Existing arrangements will remain unchanged if your income is less than \$75,000 per annum (single) or \$150,000 per annum (families).



Relying on the Age Pension

The budget will also increase assistance for pensioners by \$32.49 per week, to \$336.68 per week for singles on the full rate and \$10.14 per week to \$507.50 (combined) per week for couples on the full rate, from 20 September 2009.

However, the increase is offset by the news that the rate at which the pension is reduced for pensioners with private income will increase from 40 cents to 50 cents in the dollar, at the same time. This means that payments to pensioners will be reduced by 50 cents for each extra dollar of private income above the threshold allowed by the pension income test.

Under the new arrangements, the pension will be paid to single people with a private income of up to \$38,693 per annum instead of \$47,444, and couples will be able to earn \$59,228 (combined) per annum before their pension cuts out, down from \$72,423.

First home buyers' reprieve

The First Home Owners Boost will be extended for six months and then abolished after 31 December 2009. The boost will also be halved in the last three months of the scheme.

For more information on the Federal Budget 2009/10 and its implications for your personal circumstances, please contact us today.

Super benefits for the self-employed

It is important to consider your superannuation when you become self-employed.

If you are self-employed as a sole trader, or as a partner in a partnership, you are not required, by law, to contribute to a super fund.

However, you may wish to consider using super as a form of retirement savings and claim tax deductions for your contributions.

If you are self-employed, you can choose to make pre-tax deductible (concessional) or post-tax (non-concessional) contributions.

- **Personal tax deductible (concessional) contributions in 2008/09** – If you are under age 50, you can make concessional contributions of up to \$50,000. If you are over 50, you can contribute up to \$100,000.
- **Personal tax deductible (concessional) contributions from 1 July 2009** – The Government has announced a proposal to halve the concessional contributions cap to \$25,000 (indexed) each financial year for individuals under age 50. For individuals aged 50 and over, the cap will be halved to \$50,000 for the 2009/10 to 2011/12 financial years, after which it will revert to \$25,000 (indexed).

- **Post-tax (non-concessional) contributions** – A cap of \$150,000 each financial year applies to these contributions. This amount can be averaged over a three-year period to allow for a larger one-off contribution of up to \$450,000 if you are under age 65.

Penalty rates of tax may apply where you make contributions in excess of these caps.

Also, people who are self-employed and earn business income from running a business as a sole trader, or in a partnership, may be eligible for the Government superannuation co-contribution.

The superannuation co-contribution is a Federal Government initiative to assist lower and middle-income earners to build their super savings. To be eligible you must:

- make a personal non-concessional contribution to a complying super fund or Retirement Savings Account (RSA)
- have total income (assessable income and reportable fringe benefits less certain business deductions) of less than \$60,342 for 2008/09



- receive 10 per cent or more of your total assessable income and reportable fringe benefits from eligible employment, carrying on a business or a combination of both
- be less than 71 years of age at the end of the relevant financial year, and
- lodge an income tax return for the relevant year.

Note that the amount you receive as a Government co-contribution depends on the level of your income.

Contact us to find out more about the rules and tax benefits associated with making superannuation contributions.

A guide to reducing your household expenditure and saving our planet

Global warming is one of the most persistent problems of our time. It can be tempting to do nothing – after all, what can any one person achieve?

While it's up to governments to grapple with energy policies and emissions trading schemes, you can make a difference by making some simple changes to your daily routine. And the good news is that helping to save the planet can also save you money.

Did you know...

You can reduce your energy usage by:

- buying energy efficient appliances. All whitegoods now come with an energy star label – an international standard for energy efficient products. For example, the running costs of an energy efficient washing machine can be up to 25 per cent less than other machines over its lifetime.
- turning appliances off at the power point and potentially saving up to \$100 a year.
- installing solar panels and taking advantage of the \$8,000 Federal Government rebate.
- installing fluorescent light bulbs. By using just one 15-watt fluorescent bulb instead

of a 75-watt standard bulb, you could save about \$10 a year on your energy bill. That may not sound a great deal, but a household with 20 lightbulbs for example, could save up to \$200 a year.

You can help save water by:

- installing a free water-efficient showerhead and saving up to 21,000 litres of water a year – that's up to \$100 a year on your water bills.
- installing water-saving products like rainwater tanks and greywater systems while taking advantage of incentives such as the National Rainwater and Greywater Initiative, which offers rebates of up to \$500.

You can save money on petrol and keep fit by:

- taking public transport, walking or cycling to work – the train generates 14 grams of carbon per kilometre, compared with up to 270 grams in a car. The cost of running



a normal car per year is between \$5,200 and \$16,000, compared with, for example \$1,800 for a typical yearly public transport ticket in Melbourne.

Directing money that you have saved from adopting energy efficient practices into your investments may contribute to a more financially secure future for you and your family.

Life insurance: an investment in peace of mind

Have you ever thought about what would become of your family if something should happen to you?

Will they be financially set up to meet important financial commitments like mortgage repayments, child care or even the most basic of necessities such as food?

This is where life insurance can help, by providing a lump sum in the event of your death, which your dependants can use to help meet immediate or ongoing financial commitments.

As with all forms of insurance, life insurance is there for your peace of mind and is therefore usually a long-term investment. So when it comes to paying for this peace of mind, a little forward planning may save you a significant amount in premiums over the life of the plan.



Premium options

You can structure your premiums in one of two ways when taking out life insurance: stepped premiums or level premiums.

Stepped premiums are linked to age so the premium rate increases, or 'steps-up', each year in line with risk, to keep your level of cover constant.

Level premiums remain level throughout the duration of your plan, however, unlike stepped plans they have a predefined end date which is established at the commencement of the cover period. Level premiums are therefore not only determined by the amount of cover you require, but also the duration of your plan. The shorter the plan, the lower your premiums will be.

Should I choose stepped or level premiums?

The answer to this question depends on your personal circumstances.

At first glance, stepped premiums may seem appealing, as they are the cheapest option at entry level, in contrast to level premiums, which are likely to have much higher payments early on.

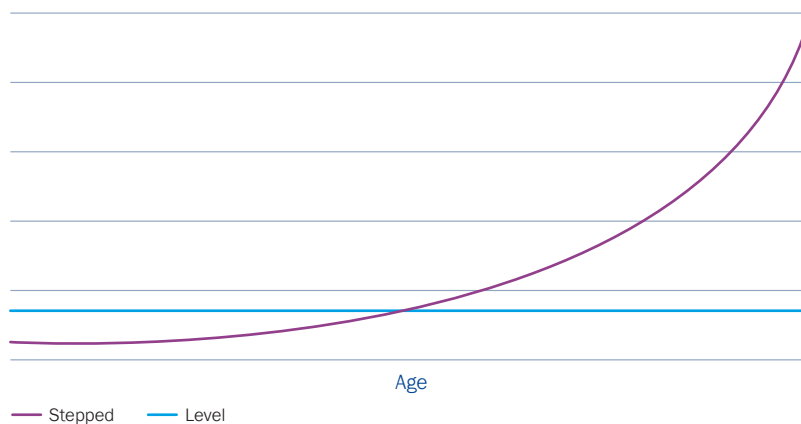
Yet as time goes by, stepped premiums will eventually overtake level premiums (as demonstrated in the graph) and can become more unaffordable around the same time your chances of claiming become more likely (typically at between the ages of 40-55 according to claims history).

In contrast, level premiums provide greater savings in later years, making your premiums more affordable just as your chance of making a claim increases.

As the advantages of stepped premiums are seen in the early years, these plans are often more appropriate for those seeking short term cover, during periods of high financial exposure, such as a home mortgage or business loan. Once the debt has been repaid and the risk to beneficiaries or dependents lifted, the stepped plan can be cancelled and the high premiums of the mature years avoided.

Level versus stepped returns

Cost



The best of both worlds

An increasingly popular option – much like a mortgage combining fixed and variable elements – is to take out two plans, one with stepped and one with level premiums. This way, you can take advantage of both the initial stepped discounts and the long-term level savings.

If you are forced to discontinue the stepped plan, you will still be able to continue paying the level premiums and enjoy the benefits of your level premium's cover.

Whether you choose stepped or level premiums, or a combination of the two, it is always important to ensure you have a sufficient level of protection to cover any financial obligations in the event of your death.

For peace of mind, call us now for more information about the level of life insurance required for your personal needs.

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