

CBUS FEDERAL BUDGET UPDATE

MAY 2009

THE SECOND BUDGET FROM THE CURRENT LABOR GOVERNMENT WAS RELEASED ON TUESDAY, 12 MAY 2009. IN THIS UPDATE WE OUTLINE THE MAIN CHANGES IN THE AREAS OF SUPERANNUATION, TAXATION, PENSION & HEALTH.

SUPERANNUATION

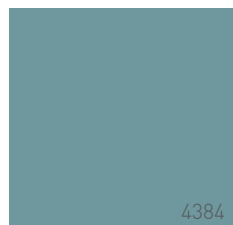
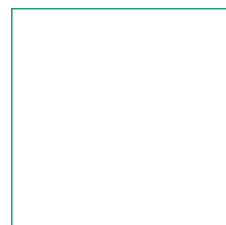
1. CONCESSIONAL CONTRIBUTION CAP

Effective 1 July 2009 the concessional contribution cap (money invested into super that attracts the concessional 15% tax rate) will be reduced. This includes contributions made via your employer, such as the superannuation guarantee (normally 9% of your wage), salary sacrifice and personal deductible contributions.

The transitional cap for those over age 50 will also be reduced. The new caps are;

FINANCIAL YEAR	CONCESSIONAL (PRE-TAX) CONTRIBUTION CAP FROM 1 JULY 2009	
	UNDER AGE 50	50 YEARS AND OVER
2009-10	25,000	50,000
2010-11	25,000	50,000
2011-12	25,000	50,000

These caps will be subject to indexation.



What this means:

- Investing large amounts into superannuation will be less tax-effective after the end of this financial year.
- If you were planning to take advantage of the current high limits, you need to do so before 30 June 2009. Contact Cbus for more information on payment options.
- If your current payments into super will exceed the new limits shown above for 2009/2010 you should urgently review these arrangements. The tax that applies to excess contributions is 31.5% plus 15% contributions tax. Excess Concessional Contributions will also count towards the non-concessional contributions cap.
- People planning to maximise contributions as they near retirement should urgently review their current contributions and retirement strategies, as additional 'last minute' contributions will be significantly less tax effective after 30 June 2009.
- The maximum amount that can be split to a spouse has also been reduced in line with the Concessional Contribution limits. Any members currently accessing this strategy should review their financial situation for 2009/2010.

2. TRANSITION TO RETIREMENT (TTR) PENSIONS

Despite much speculation that these would be closed to new entrants, no changes were announced. However, the changes to the Concessional Contribution caps discussed previously may have a significant detrimental impact on this strategy for many people.

What this means:

Any members who are currently contributing in excess of \$50,000 should urgently review their current payments and retirement strategies. Considerations include:

- Reducing salary sacrifice or personal deductible contributions
- Reducing the income drawn from a TTR pension
- Rolling some funds from a TTR Pension back into a superannuation accumulation fund

Special warning: Many members salary sacrifice any annual bonuses as a matter of course, without knowing the amount of the bonus. This could easily cause an inadvertent breach of the new lower concessional contributions cap, and result in tax being levied on these payments at the highest marginal rate. These arrangements should be reviewed.

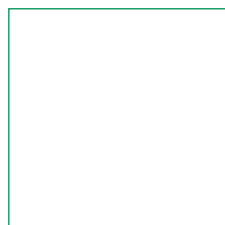
3. GOVERNMENT CO-CONTRIBUTION

The 'co-contribution' amount that the government pays under this program will be reduced as a temporary measure. The new limits are listed below.

FINANCIAL YEAR	YOUR MAXIMUM CONTRIBUTION TO RECEIVE THE CO-CONTRIBUTION	MAXIMUM CO-CONTRIBUTION AVAILABLE
2008-09	\$1,000	\$1,500
2009-10	\$1,000	\$1,000
2010-11	\$1,000	\$1,000
2011-12	\$1,000	\$1,000
2012-13	\$1,000	\$1,250
2013-14	\$1,000	\$1,250
2014-15	\$1,000	\$1,500

Note 1: Co-contribution thresholds will continue to be indexed to AWOTE.

Note 2: Maximum co-contribution received depends on your income. Check the co-contribution calculator on www.cbussuper.com.au to work out how much you could receive.



What this means:

- Eligible members should maximise the co-contribution available this financial year - remember, contributions must be made by 30 June 2009.
- Eligible members should investigate, or seek advice to determine the most beneficial method and level of additional contributions.

Tip: Despite the temporary reduction in the Government Co-contribution amount this still remains an excellent way for lower income earners to 'boost' their superannuation savings – the return on additional contributions paid is up to 100%.

4. TEMPORARY REDUCTION IN MINIMUM INCOME STREAM DRAWDOWN LIMITS EXTENDED

As widely anticipated, the current temporary arrangement allowing a 50% reduction in minimum annual payments for retirement income streams will be extended to the end of the 2009/2010 financial year (30 June 2010).

This extension to the minimum income stream drawdown requirements acknowledges that while over recent months there have been some signs of stabilisation in investment markets, these have not yet significantly impacted asset values/balances.

This arrangement will apply to both existing and new income stream members.

What does this mean?

- A member aged 65 with \$100,000 in a pension account at 1 July 2009 would normally have been required to draw \$5,000 as a minimum annual payment. This will now be reduced by 50% to \$2,500.
- Reducing the amount being drawn may result in a small increase in Centrelink benefits. If this strategy is implemented, you should advise Centrelink within 14 days of electing to receive reduced income from your income stream.

TAXATION

1. PREVIOUSLY ANNOUNCED CHANGES TO PERSONAL INCOME TAX RATES WILL APPLY

The previously announced changes to personal income tax rates (from 1 July 2009 and 1 July 2010) will proceed.

New rates and tax payable will be:

2008-09		2009-10		2010-11	
TAXABLE INCOME \$	RATE	TAXABLE INCOME	RATE	TAXABLE INCOME	RATE
0-6,000	0%	0-6,000	0%	0-6,000	0%
6,001-34,000	15%	6,001-35,000	15%	6,001-37,000	15%
34,001-80,000	30%	35,001-80,000	30%	37,001-80,000	30%
80,001-180,000	40%	80,001-180,000	38%	80,001-180,000	37%
180,001+	45%	180,001+	45%	180,001+	45%

TAXABLE INCOME \$	CURRENT TAX (2008-09)	LEGISLATED TAX (2009-10)	LEGISLATED TAX (2010-11)
30,000	3,600	3,600	3,600
35,000	4,500	4,350	4,350
75,000	16,500	16,350	16,050
80,000	18,000	17,850	17,550
150,000	46,000	44,450	43,450

Note: Medicare levy and tax offsets are not included

2. LOW INCOME TAX OFFSET (LITO)

- 1 July 2009 - the upper threshold will increase to \$63,750.
- 1 July 2010 - the upper threshold will increase to \$67,500.
- LITO will continue to reduce at \$0.04 for each \$1.00 of income above \$30,000.
- 2009/2010 - maximum LITO is \$1,350. This represents an increase of \$150 from 2008/2009.

HEALTH

1. PRIVATE HEALTH INSURANCE REBATE

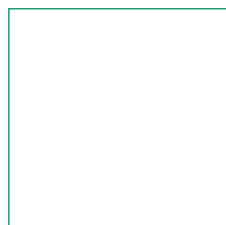
- Currently, the 30% rebate is not means tested.
- From 1 July 2010, the Government proposes to introduce a three tiered approach to determine the amount of private health insurance rebate payable to individuals.
- Income above the upper threshold will result in a complete loss of the private health insurance rebate.
- Age will also be a factor in determining the amount of rebate received.



	CURRENT SURCHARGE THRESHOLDS (PROJECTED TO 2010-11)	TIER 1	TIER 2	TIER 3
Income (Singles)	\$0 - \$75,000	\$75,001 - \$90,000	\$90,001 - \$120,000	\$120,000+
Income (Family)	\$0 - \$150,000	\$150,001 - \$180,000	\$180,001 - \$240,000	\$240,001+
Medicare levy surcharge	Nil	1.00%	1.25%	1.50%
Private health insurance rebate under 65	30%	20%	10%	Nil
Private health insurance rebate 65 - 69	35%	25%	15%	Nil
Private health insurance rebate 70 and over	40%	30%	20%	Nil

What this means:

- Current rebates will continue to apply for singles earning under \$75,000 and families under \$150,000.
- Higher income earners will pay more for cover due to the loss of rebate, but also a higher Medicare levy surcharge if they choose not to have cover.
- The current practice of claiming the rebate via lower premiums may become unworkable once the tiers are in place. This may lead to the rebate being claimed via a tax return.



2. MEDICARE LEVY - LOW INCOME THRESHOLDS

From 2008/2009, the new Medicare Levy thresholds applicable are \$17,794 for singles (previously \$17,309) and \$30,025 for families (previously \$29,207). Each dependent child or student increases the threshold by \$2,757.

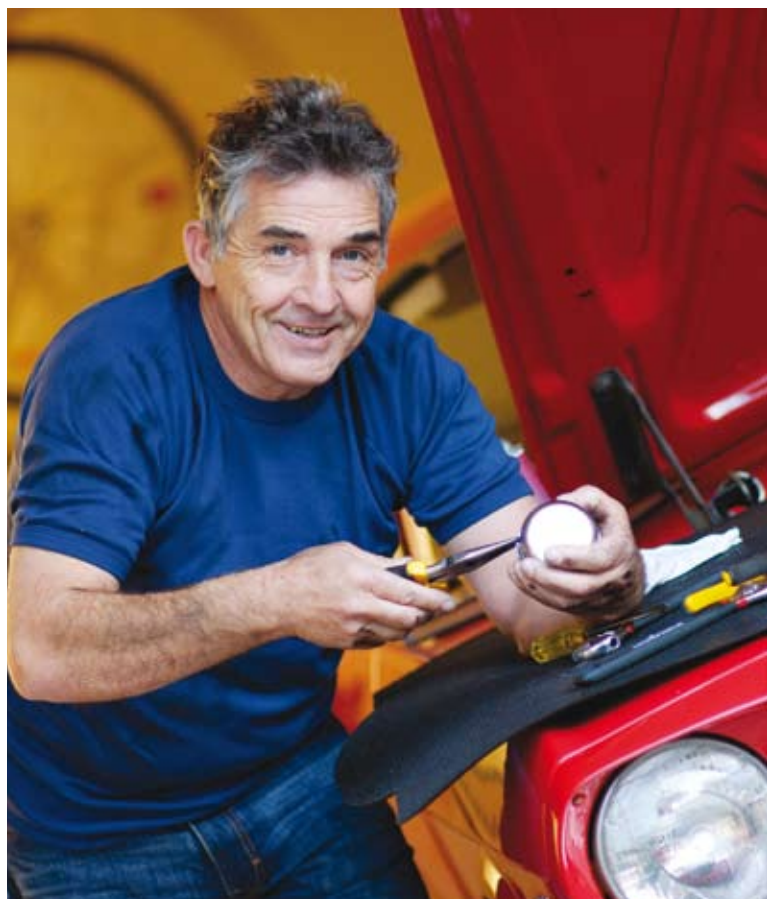
The pensioner low income threshold has been increased to \$25,299. Thus pensioners will not pay the levy when they have no income tax liability.

CENTRELINK/SOCIAL SECURITY

1. AGE PENSION INCREASES

The following changes will take effect from 20 September 2009 and apply to the Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and War Widows.

- Combination of four current allowances (GST, Utilities, Telephone/Internet and Pharmaceuticals) into one fortnightly 'pension supplement'.
- Pensioner supplement increases by \$32.49 per week for singles and \$10.14 per week for couples combined.



SINGLE AGE PENSION			
Maximum Age Pension	20/3/09	Post 20/9/09	Increase
Per fortnight	\$575.80	\$640.78	\$64.98
Per Annum	\$14,970.80	\$16,660.28	\$1,689.48
COUPLE AGE PENSION (COMBINED)			
Maximum Age Pension	20/3/09	Post 20/9/09	Increase
Per fortnight	\$957.80	\$978.08	\$20.28
Per Annum	\$24,902.80	\$25,430.08	\$527.28

2. CHANGES TO THE AGE PENSION TAPER RATE

- From 20 September 2009 payment rates will be reduced by \$0.50 for each \$1.00 of extra income above the income test 'free area'.
- Transitional arrangements will apply for existing part pensioners affected by this change. Individuals who are worse off will continue to be assessed at the \$0.40 taper rate on the reduced base rate of pension (pre-20 September 2009 rate) until they are better off under the new rules.

	INCOME PER FORTNIGHT BEFORE TAPER COMMENCES	PENSION CURRENTLY CUTS OUT AT	POST 20/9/09 CUT-OUT
Singles	\$138	\$47,444	\$38,693
Couples	\$240	\$72,423	\$59,228



3. CONTINUE TO WORK INCENTIVES

- The Pension Bonus Scheme will close to new registrations from 20 September 2009, however, existing registrations will continue.
- Also from 20 September 2009, a new Pensioner Work Bonus will allow pensioners to receive a maximum of \$125 per fortnight in additional pension payments. This will be achieved by disregarding 50% of the first \$500 of employment income under the income test.

4. INCREASED ACCESS TO CENTRELINK SERVICES AND BENEFITS FOR SELF-FUNDED RETIREES

Seniors Health Card

The previously announced changes to the Commonwealth Seniors Health Card to include tax free pension income in the income test for this benefit will not proceed. Current arrangements will remain.

Seniors Supplement

From 20 September 2009, around 300,000 self-funded retirees will have access to the Seniors Supplement. This supplement is currently \$790.40 per annum for singles and \$1,190.80 for couples combined, with payments made quarterly. Retirees eligible for the Commonwealth Seniors Health Card or the Department of Veteran Affairs Gold Card will receive the Seniors Supplement.

For more information about these services and benefits call Centrelink or visit their website: www.centrelink.gov.au

5. INCREASE IN THE AGE PENSION QUALIFYING AGE

It's important to note that the age at which you can access your superannuation has not changed, however some changes to the qualifying age for the Age Pension have been made.

Looking into the future, the qualifying age for the Age Pension is set to increase gradually from July 2017 to 67 years of age by 2021.

FROM	NEW AGE PENSION AGE	AFFECTS PEOPLE BORN
1 July 2017	65 years 6 months	1 July 1952 – 31 Dec 1953
1 July 2019	66	1 Jan 1954 – 30 Jun 1955
1 July 2021	66 years 6 months	1 July 1955 – 31 Dec 1956
1 July 2023	67	1 Jan 1957 – onwards

6. PENSIONER AND BENEFICIARY LIVING COST INDEX

- The rate of pension for singles will now be benchmarked against 27.7% of the Male Total Average Weekly Earnings.
- A new living cost index will be developed.

7. PAID PARENTAL LEAVE

- Payments will be introduced from 1 January 2011, to the primary carer at the federal adult minimum wage (currently \$543.78) for up to 18 weeks.
- Payments will be considered taxable income and will affect entitlement to family assistance payments but will not be counted as income for income support payments.
- Primary carers will be eligible if they:
 - Earned less than \$150,000 in the full financial year prior to birth or adoption and worked at least 330 hours over 10 months (equal to one full day per week) preceding the birth or adoption.
 - Worked at least 10 out of 13 months before the expected date of the birth or adoption.
- This payment will be available to contractors, casual workers and the self-employed.
- If parents receive the paid parental leave they will not be eligible for the baby bonus except for multiple births, where no baby bonus will be paid for the first child. Parents will also not be eligible for:
 - Family Tax Benefit Part B
 - Dependant Spouse
 - Child-Housekeeper
 - Housekeeper tax offset

8. CARER PAYMENTS

A new Annual Carer Supplement of \$600 will be payable in addition to the increase in Pension rates. This will be payable to people who receive:

- Carer Payment or both Wife Pension and Carer Payments
- Both Department of Veteran Affairs Partner Service Pension and Carer Allowance
- Department of Veteran Affairs Carer Service Pension
- Carers who receive both Carer Payment and Carer Allowance will receive \$1,200 pa.
- The first Carer Supplement payment will be made before July 2009 with the regular payment made from July 2010 onwards.



NOT QUITE THE END OF THE STORY!

In this update we have tried to only summarise those changes that potentially may have the greatest effects on Australian households.

However, as you can see there were a large number of changes (both major and minor) proposed by the Treasurer.

ARE WE THERE YET?

It is important to note that most of the Treasurer's announcements are only proposed and cannot be implemented until they are ratified by the Senate, where the Government does not have a majority.

While it is anticipated that most of the budget measures will be passed by the Senate, it is important to keep up-to-date when this happens and any amendments to the proposed legislation that may occur.

WILL THERE BE MORE?

In his budget speech the Treasurer foreshadowed that the government intends to review the entire Australian taxation system and some aspects of the current superannuation system.

They also announced their intention to review current levels of pensions and benefits for older Australians.

However, these reviews will not impact the announcements made in this year's budget.

WHO TO CONTACT FOR MORE INFORMATION

Our Service Centre is available to answer any questions you may have about the proposed changes announced in the Federal Budget. You can call them on **1300 361 784**.

Cbus also recommends that before you make any major financial decisions, you meet and discuss your situation with a financial planner. Cbus members are entitled to an initial consultation at no cost with one of our professionally qualified financial planners.

Cbus financial planners charge on a fee-for-service basis, and do not receive sales commissions.

You may even be able to have fees related to personal financial advice provided by a Cbus financial planner deducted from your investment.

For more information, or for referral to a Cbus financial planner call **1300 365 973**.

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