How the Budget may affect Retirees and Pre-retirees

Federal Budget Update 2018/19

The announcements in this update are proposals unless stated otherwise. These proposals need to successfully pass through Parliament before becoming law and may be subject to change during this process.

What you need to know

- The Budget is forecast to **return to surplus in 2019/20** with a positive balance of $2.2bn
- Income **tax relief for low-income and middle-income earners** – up to $530 per annum via a tax offset– for four years commencing 1 July 2018
- Addressed income tax bracket creep – as part of a seven-year plan to ultimately **eliminate the 37% tax bracket**
- A major **crack down on tax cheats** and the black economy
- The **Medicare Levy** will not be increased to 2.5% as proposed in the 2017/18 Federal Budget; instead it stays at 2%
- **Superannuation** – exit fees banned, a 3% passive fee cap for accounts with balances less than $6,000 and a voluntary contribution work test exemption for the financial year following the financial year people aged from 65 to 74 retire whose balance is less than $300,000
- **Social Security** – the Pension Loans Scheme is to be extended to all older Australians including self-funded retirees enabling retirement income to be boosted up to $17,800 per couple without losing the pension or other benefits
- **Aged care** - seniors will be encouraged to continue living at home rather than going into care with the help of $1.6bn allocated to providing 14,000 home care places over the next four years
- **Small business** – the $20,000 instant asset tax write-off to be extended another year to 30 June 2019
- **Infrastructure** – major spending on rail and road including a $1bn Urban Congestion Fund to improve traffic flow
- **Energy costs** – estimated to reduce by $400 per year on average for every Australian household from 2020, courtesy of the National Energy Guarantee.

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Overview

The economic plan delivered by Treasurer Scott Morrison on Tuesday 8 May is centred on tax:

- **Providing tax relief to low-income and middle-income earners**
- **Addressing bracket creep with a seven-year plan that will see the 37% tax bracket disappear entirely**
- **Maintaining the Medicare Levy at 2%**
- **Cracking down on tax cheats and the black economy.**

Tax relief and radical reform

The tax relief promised by the tax offset will take effect from 1 July 2018:

- People earning up to $37,000 will receive a tax offset of up to $200
- People earning up to $90,000 will receive up to $530
- People earning from $90,000 to $125,333 will receive an offset that tapers to nil.

The radical plan to eliminate the middle tax bracket of 37% is a long way off, both chronologically and politically – 7 years and two elections. All going well, it will be implemented in three phases culminating in a tax scale that, from 1 July 2024, will be as shown below.

Income tax bracket	Tax on income
$0 – $18,200	0%
$18,201 – $41,000	19%
$41,001 – $200,000	32.5%
$200,001+	45%

Medicare

In the 2017/18 Federal Budget, the Government proposed a substantial increase from 2% to 2.5% to help fund the National Disability Insurance Scheme. This would have added the average family approximately $600 extra per year.* The Treasurer announced that this will no longer be necessary, instead the Medicare Levy will stay at 2%.

The Budget also includes an agreement that will see public hospitals receive over $30bn in extra funding between 2020/21 and 2024/25.

* The Daily Telegraph 8 May 2018

Superannuation changes

Additional contributions opportunity for recent retirees

From 1 July 2019, if you're aged between 65 and 74 and your super balance is less than $300,000 you will be exempt from the work test that otherwise applies to voluntary super contributions. This applies only to the first year in which you fail to meet the work test requirements, but if you qualify you may be able to make substantial additional contributions to super.

No exit fees from 1 July 2019

Exit fees on all superannuation accounts will be banned, presenting the opportunity to review your current super fund and, if appropriate, switch without penalty.

Means testing of lifetime income streams

Age Pension means testing rules for pooled lifetime income streams will assess a fixed 60% of all payments as income and 60% of the purchase price of the product as assets until age 84 (or a minimum of 5 years) and then 30% thereafter for the remainder of the person's life.

Acknowledging that Australians' life expectancy is increasing, the Government is proposing to increase the use of pooled lifetime income streams which are designed to manage longevity risk.

Existing pooled lifetime income streams purchased before 1 July 2019 will be grandfathered (i.e. assessed under the current rules).

Means testing of pooled lifetime income streams	Income Test	Asset Test
Current assessment	Payment less deductible amount	Capital reduction rules: Purchase price is reduced bi-annually or annually on a straight-line basis over life expectancy
New assessment from 1 July 2019	60% of payments	60% of Purchase Price until age 84 30% of Purchase Price for rest of person's life

Proposed new means testing of pooled lifetime income streams offer asset test advantages initially, however a higher asset value is assessed after age 84.

Pooled lifetime income streams purchased prior to 1 July 2019 provide a more concessional asset test assessment when life expectancy is reached. Clients who are in good health and anticipate living past their life expectancy, who purchase pooled lifetime income streams prior to 1 July 2019 may receive a higher Age Pension where their entitlement is determined by the assets test.

Expansion of the Pension Loans Scheme

Similar to a reverse mortgage arrangement, the Pension Loans Scheme (PLS) currently allows pensioners over Age Pension age to unlock equity in their home to top up their pension to the maximum rate. It also allows self-funded retirees who are precluded from Age Pension, to obtain a loan up to the maximum rate of the Age Pension.

From 1 July 2019, the maximum rate an eligible individual can receive under the PLS will increase from 100% to 150% of the Age Pension. Full rate pensioners will be able to increase their income by up to $11,799 (singles) or $17,787 (couples) per year by unlocking the equity in their home.

Expansion of PLS may allow eligible individuals to increase their cashflow by unlocking equity in their home, providing you're in a position to make the repayments. The current interest rate for the scheme is 5.25% and will apply to new and existing loans. This rate has not changed since 25 December 1997.

To apply for a loan under the PLS, you need to make an appointment with a Financial Information Services Officer to discuss terms and conditions. Before you do so, consider discussing this option with your financial adviser to ensure it aligns with your retirement plan.

Aged care

New high level home care packages

In response to the growing demand for high-level care at home, the Government will deliver an additional 14,000 new high level home care packages over four years from the 2018/19 financial year. Home care packages provide assistance with day-to-day activities in the person's home. While this initiative is a step in the right direction, the supply of new home care packages will still be well short of demand. If this is an option you're considering, it's best to get one the front foot now. Your adviser can help you with that.

Further aged care proposals

Navigating aged care options is difficult and confusing. The proposals will help simplify the forms for means testing assessment.

A national legal framework and National Register of Enduring Powers of Attorney will be established in conjunction with the State and Territories. Currently the legal framework and registration for Enduring Powers of Attorney may differ according to the State or Territory. This is one important part of estate planning that your financial adviser can help you with.

What's next?

Most changes must be legislated and passed through Parliament before they apply. If you think you may be impacted by some of the Budget's proposed changes, you should consider seeking professional advice. A financial adviser can give you a clear understanding of where you stand and how you can manage your cash flow, super and investments in light of the proposed changes.

If any of these proposals raise questions, concerns or new opportunities for you, speak with your financial adviser today.