# 2018/19 FEDERAL BUDGET REPORT

FIN SEC PARTNERS

## May 2018

If you're the kind of person who loathes surprises, preferring to be fully apprised of impending gifts before birthdays, anniversaries or Christmases, then chances are you would have loved the recent Federal Budget.

In fact, if this Budget was a surprise birthday party, the guest of honour would have known weeks in advance. No hushed party guests waiting excitedly in the dark before trumpeting a raucous "Happy Birthday'' to the unsuspecting party girl, or guy.

No, Treasurer Scott Morrison well and truly ensured Budget Night was a ho-hum affair, by historical standards, by virtue of the fact he'd been spruiking its apparent highlights for at least two weeks.

It's not unusual, of course, for governments to drip-feed us some of the more favourable aspects of a budget before it's officially handed down, but what we saw this month was a backs-against-the-wall government keen to gain maximum political bang for their budget buck ahead of next year's election.

So far, it seems to be having the desired effect.

The Coalition will be pleased with its budget bounce, the latest Newspoll out yesterday (Monday) has Prime Minister Malcolm Turnbull extending his preferred PM lead over Opposition Leader Bill Shorten to 14 points (from 3), although Labor continues to hold a 51-49% two-party lead.

Post-budget opinion will soon be tested on the ground in five byelections, four of them caused by the citizenship fiasco, which ironically ensured this year's Federal Budget enjoyed its shortest ever news cycle.

So, what to make of the actual budget measures? From a financial services perspective, there's not a lot in it.

The Majority of you will have read the facts and figures by now, and will have an understanding of the changes. This summary is not a simple reiteration of these facts. As is customary at FinSec we wait to analyse the many budget reports hitting our inboxes and try to seek clarification on the ambiguous before providing our own analysis from a financial planning and wealth perspective.

We trust that you enjoy the read and we look forward to speaking with you individually about how this budget may impact your personal circumstances.

# SUPERANNUATION

While compared to prior years the Superannuation announcements were minimal and largely positive in nature, there were a number of important changes which impact Superannuation funds and their members.

*Budget recommendations include:*

### 1 Work test exemption for recent retirees

**Proposed effective date: 1 July 2019**
**Who this affects: Australians aged 65-74 who have recently ceased work and have super balances below $300,000**

Currently, eligible individuals aged 65 or older who want to make a voluntary contribution to super must meet the work test. Meaning; individuals over the age of 65 need to work a minimum of 40 hours in a 30-day period to qualify.

From 1 July 2019, the Government has announced it intends to introduce an exemption from the work test for voluntary contributions for recent retirees. The exemption will be available in the first year that a recent retiree does not meet the work test requirements. To qualify for this exemption, the client must be aged 65 to 74 years with a super balance below $300,000.

Total superannuation balances will be assessed for eligibility at the start of the financial year following the year in which they last met the work test. Once eligible, there is no requirement for individuals to remain under the $300,000 balance cap for the duration of the 12-month period.

Existing annual concessional and non-concessional caps ($25,000 and $100,000 respectively) will continue to apply to contributions made under the work test exemption. Individuals will also be able to access unused concessional cap space to contribute more than $25,000 under existing concessional cap carry-forward rules during the 12 months.

As bring-forward arrangements for non-concessional contributions are not available to those aged 65 and over, individuals will not be able to access bring-forward non-concessional contributions under the work test exemption.

This measure is intended to provide retirees with additional flexibility around when they choose to make contributions to super as they transition into retirement.

**FinSec Comment**

We question whether individuals who are no longer working many hours, if at all, and have small superannuation balances are likely to have large sums of money to contribute to their Superannuation account. The Government is recognising only a very modest estimated cost of $10 million over the forward estimates period.

However, for those that have built wealth outside of superannuation this measure could provide a larger window to execute estate planning strategy involving the taxable component of super. Whatsmore it provides the potential to chrystalise capital gains in the year after retirement and contribute those gains to superannuation.

## 2 Capping passive fees, banning exit fees and reuniting small and inactive accounts

**Proposed effective date: 1 July 2019**
**Who this affects: Australians with super balances below $6,000 and those seeking to exit their funds**

The Government has announced a 3% annual cap on passive fees charged by super fund on accounts with balances below $6,000. The Government has also announced a ban on exit fees on all superannuation accounts.

In addition to this, the Government has announced all inactive accounts with balances below $6,000 will be required to be transferred to the ATO. The ATO will expand its data matching process in an attempt to reunite these inactive accounts with the member's active account.

**FinSec Comment**
Like all changes to rules, there are likely to be some practical issues that will need to be worked through, however we very much welcome the ban on exit fees. We have witnessed firsthand some prohibitive exit fees on some of our client's accounts particularly for older products. This initiative will allow full fund choice for individuals meaning they will be able to move freely if unsatisfied with services.

On the flip side it would have been nice to see the annual cap on fees applied to all accounts regardless of their size, but we will take what we can get and see this as a huge positive for those with smaller accounts trying to build their super.

We can't help but be a little cynical when it comes to the ATO and their ability (or motivation) to reunite the billions of dollars in 'lost super' with it's rightful owners. After all, since this rule was introduced (it has been in effect in one form or another since December 2012) it has been a huge revenue earner for them.

## 3 Changes to default insurance in Super

**Proposed effective date: 1 July 2019, with a 14 month transition for members to decide whether to opt-in**
**Who this affects: Australians with super balances below $6,000, below age 25 and those whose account has not received a contribution in 13 months and are therefore considered inactive.**

The Government has announced changes to the default super arrangements for clients with balances below $6,000; below age 25; and those whose super accounts has not received a contribution in 13 months and are inactive.

From 1 July 2019, these clients will be required to opt-in to default insurance inside super.

This measure attempts to ensure younger Australians' savings are not eroded by insurance premiums they don't need or don't know they have.

**FinSec Comment**

Insurance within Superannuation continues to be an area of interest for the Government and regulators, as evidenced by the number and scope of 'reviews' into the life insurance industry commissioned over the last few years.

The Government had previously expressed concerns about the erosion of superannuation savings due to premiums, especially for younger workers. As such, while this announcement is not surprising, the implications of the policy may result in a number of unintended outcomes. For example: Given group insurance policies are priced based on assuming the broad range of risks that default membership brings, this policy change could result in insurers increasing premiums (dependant on the membership profile of the fund). Not necessarily unreasonable, given this change increases the chances of adverse selection, that is, unhealthy younger members more likely to opt-in than healthier members.

Another unintendedand consequence will be underinsurance of younger people. Australia already has a classic underinsurance problem and this was one of the key policy rationales for the inclusion of default insurance in superannuation in the first place. It provides a safety net level of cover. Moving to an opt-in model will result in the vast majority of young people losing the protection of this safety net. Behavioural economics and all the available evidence tells us that only a very small minority of young people will opt-in, in all likelihood much less than 10 per cent (we are all 10 foot tall and bulletproof in the realm of early adulthood). Removing insurance for young people could ultimately place a greater strain on the public purse, not to mention the families and dependants of young Australians suffering misfortune who will be left to pick up the pieces.

## 4 Preventing inadvertent concessional cap breaches by certain employees

**Proposed effective date: 1 July 2018**
**Who this affects: Individuals whose combined income exceeds $263,157 from multiple employers**

Currently, individuals with multiple employment arrangements each requiring the payment of superannuation guarantee (SG) contributions can find themselves in a position where their combined SG exceeds the concessional contribution cap of $25,000.

The Government will allow individuals with multiple employers and combined income exceeding $263,157 to nominate for their wages from certain employers to not be subject to SG.

In lieu of this payment, employees may negotiate to receive additional income to avoid breaching their concessional cap which would otherwise result in excess contributions tax and a shortfall interest charge.

**FinSec Comment**

Despite our investigation it still remains unclear how this change will be implemented. In particular whether an individual is able to nominate part income payments above this threshold from an employer or an all or nothing nomination will be required.

## 5 Maximum number of members in SMSFs and small APRA funds to increase from 4 to 6

**Proposed effective date: 1 July 2019**
**Who this affects: Existing and new SMSF trustees and members; APRA fund administrators**

The Government has reiterated the measure previously announced by Hon. Kelly O'Dwyer to increase the maximum number of allowable fund members in an SMSF and small APRA fund from four to six members.

The intention of this measure is to provide greater flexibility when it comes to the joint management of retirement savings for larger groups such as families who may previously have found themselves restricted by existing member limits.

**FinSec Comment**

The greater flexibility is a positive, but given only around 4% of SMSFs currently operate with the maximum four members it's hard to see this change as having a huge impact on the SMSF segment. This said, it will benefit family groups who want to include parents and their children and potentially their children's spouses in a single SMSF, bringing the benefits of reduced costs, greater scale and the potential for more 'innovative' strategy - Could this be the foil to Shorten's franking debate? (Refer FinSec Blog 23 March 2018, Digesting the ALPs Dividends Plan).

## 6 Three-yearly audit cycle for some SMSFs

**Proposed effective date: 1 July 2019**
**Who this affects: SMSFs with good record-keeping and compliance history**

SMSFs with a history of good record-keeping and compliance will have their annual audit requirement increase to a three-yearly cycle.

To qualify for this measure SMSF trustees will need to demonstrate a history of three consecutive years of clear audit reports and having had lodged the fund's annual returns in a timely manner.

# SOCIAL SECURITY

## 7 Changes to Pension Loans Scheme

**Proposed effective date: 1 July 2019**
**Who this affects: All Australians of Age Pension age**

Currently, the Pension Loans Scheme (PLS) is only available to part-pensioners and nil rate pensioners of Age Pension age or whose partners are Age Pension age. The maximum fortnightly payment is limited to the maximum basic pension rate plus the pension supplement.

From 1 July 2019, the PLS will become available to full and part pensioners and self-funded retirees of Age Pension age. The maximum fortnightly payment will be increased to 150% of the current rate and clients may be able to draw up to fortnightly payments as shown below.

| | Current Rate | Proposed 1 July 2019 |
|---|---|---|
| Single | $907.60 | $1,361.40 |
| Couple combined | $1,368.20 | $2,052.30 |

Full rate pensioners may be able to receive an increased cash flow up to $11,798.80 per annum for singles or $17,786.60 per annum for couples.

The increased limit may be an alternative source of cash flow for more senior clients who have limited financial investments but have equity in their home or other Australian real estate. However, increased PLS drawdowns will also mean the client’s equity in their property reduces at a faster rate.

**FinSec Comment**

The Pensions Loan Scheme, which is basically a ‘reverse mortgage’ has been around in some form or another since the Hawke Government, the take-up rate has been relatively low, despite there being general consensus that this is a valuable scheme for retirees. The low take-up rate has partially been attributed to the fact that the Scheme is not well known by the public. While the Government announcement will no doubt catch the eyes of some, it is unlikely to result in a large increase in take-up rates unless there is some targeted Government marketing, or more professionals within the financial/estate planning industry decide to take notice of the Scheme when structuring their clients’ superannuation arrangements.

## 8 Work Bonus

**Proposed effective date: 1 July 2019**
**Who this affects: Those who are still working and affected by the income test, may receive an increased amount of Age Pension or now be eligible for a part pension.**

Under the current pension work bonus, the first $250 per fortnight of income from employment that is earned by a person who is Age Pension age is not counted as assessable income. Any bonus unused in a fortnight can be carried forward (up to total carried forward balance of $6,500) and can be used to reduce employment income in future fortnights. Income over the $250 per fortnight exemption is added to other assessable income under the income test and the normal rules apply to determine the amount of pension payable.

From 1 July 2019, the pension work bonus will be increased to $300 per fortnight (total carried forward balance of $7,800). The pension work bonus will also apply to self employment income. There will also be a personal exertion test to ensure that the work bonus only applies to employment and self-employed income.

Those clients who are still working and are affected by the income test, may receive an increased amount of the Age Pension.

**FinSec Comment**

This is a positive for older Australians still working. Under the new measures they will now have the ability to earn more without impacting their pension entitlements or in some cases even access the Age pension for the first time. We also applaude any initiative that encourages the longevity of a skilled workforce in Australia - Experience and wisdom is hard to put a price on.

Note: This is really just an indexing of the amount, which has not changed since the current scheme was introduced in September 2009.

## 9 Increase to the Newly Arrived Resident's Waiting Period for new migrants

**Proposed effective date: 1 July 2018**
**Who this affects: Newly arrived migrants**

The current Newly Arrived Resident's Waiting Period before new migrants can apply for allowances and family payments is currently 104 weeks. It was previously proposed that the waiting period will be extended to 156 weeks from 1 July 2018. It is now proposed to extend the waiting period to 208 weeks (3 to 4 years). The longer waiting period will impact clients who are granted permanent residency and some temporary visas on or after 1 July 2018.

Newly arrived migrants will have to ensure they can support themselves without Government support for a longer period.

## 10 Better access to Youth Allowance for regional students

**Proposed effective date: 1 July 2018**
**Who this affects: Regional students**

The parental income cut-off for the Youth Allowance means test for regional students will be increased from $150,000 per annum to $160,000 per annum. For each additional child the income test will be further increased by $10,000. The parental income in the year before the beginning of the 14 month self-supporting period will be used. This measure will allow regional students more certainty about their parent's income will be under the cut-off limit and helping the student decide when to take a gap year.

## 11 Means testing for lifetime products

**Proposed effective date: 1 July 2019**
**Who this affects: Retirees**

New social security means testing will apply to pooled lifetime income streams which commence on or after 1 July 2019. Under the changes, 60% of the income payments and 60% of the full purchase price will count towards the income and assets test until the person attains age 84 or a minimum of 5 years. After this 30% of the income payments and 30% of the purchase price will count for the remainder of the person's lifetime.

The measure is intended to encourage pensioners to invest in pooled lifetime income streams which will allow them to receive regular income for their lifetime.

**FinSec Comment**
We welcome this initiative as it creates more options for retirement income. This is an evolving space and the benefits of this announcement will be better understood as product manufactures bring new innovations to market.

## 12 Cancellation of Disability Support Pension (DSP) for those in prison

**Proposed effective date: 1 January 2019**
**Who this affects: DSP recipients in prison or on remand in custody**

Recipients of the Disability Support Pension who are in prison will have their payments terminated after 13 weeks of suspension. These includes those who are already in prison or on remand in custody where they have been incarcerated or more than 13 weeks on or after 1 January 2019.

## 13 Better access to Aged Care

The Government is increasing spending to improve access to aged care. The following measures were proposed as part of Budget 2018/19:

- The Government will add 14,000 home care packages in addition to 6,000 packages that were released in December 2017. This brings additional home packages to a total of 20,000. This will reduce waiting periods and will also benefit those receiving low level packages but have been assessed as needing high level care.
- Deliver improvements to My Aged Care including readily accessible information on issues that matter most for those in care, their relatives, and health and service providers. This will allow easier navigation of the aged care system and allow service providers better access to client referrals and client records.
- Design and implement streamlined consumer assessments for all aged care services by 2020. This will remove the complexity and inefficiency of the current system and reduce multiple assessments that clients undergo to determine their care needs.
- Introduce face to face services and outreach services to help older clients and their families make informed choices about their aged care needs. Aged care information hubs, community hubs, one-on-one specialist support, and aged care Financial Information Support Officers will be trialled to provide additional support with complex financial decisions for entrants to aged care.
- Support analysis of the proposal to transition the allocation of residential aged care places to the client rather than to aged care facilities to allow greater choice for older Australians.
- Simplify the process for entry to aged care and create a short form for means testing clients with 'simpler' financial affairs to reduce complexity of assessments (by May 2019).
- Increase funding building improvements, maintenance and infrastructure expansion for regional, rural and remote aged care providers to improve access to aged care for older people living in these areas.

- From 1 January 2019 establish an Aged Care Quality and Safety Commission to consolidate the functions of the Australian Aged Care Quality Agency, the Aged Care Complaints Commissioner, and from 1 January 2020, the aged care regulatory functions of the Department of Health. This will enhance coordination, better access to information, and an improved ability to identify and respond to concerns and issues.
- Provide funding to residential aged care services to help with the transition to the new Aged Care Quality Standards commencing from 1 July 2019. The new standards will allow older Australians and their families a greater say in the quality of the care and services they receive.
- Improve protection for clients in residential aged care by establishing a robust risk profiling approach to identify risks to consumers and enable regulatory processes to address care failures by aged care providers.
- Introduce a performance rating for residential aged care service providers and improve complaints processes for clients in residential aged care. This will allow clients to compare ratings of residential aged care providers.
- Improve palliative care provided by residential aged care facilities.
- Introduce a compulsory retrospective levy on residential aged care service providers where defaults exceed $3 million in any fiscal year and develop stronger prudential standards in managing accommodation payments held by residential service providers in order to protect the growing pool of accommodation payments.
- Improve mental health services for those aged over 75 years whose mental and physical health are at risk because of isolation and loneliness and new mental health services for clients in residential aged care who have been diagnosed with a mental disorder.
- Trial innovative approaches to support older Australians to increase levels of physical activity and to live independently for a longer period.
- Introduce online checks for people aged 45 to 65 to allow them to assess their health, future employment options and finances and access information.
- Increase the capacity of the Australian and New Zealand Hip and Fracture Registry (ANZHFR) to improve collection and access to data collection on older people recovering from a hip fractures.
- Design and pilot a program to improve care for dementia patients.

**FinSec Comment**

Older Australians were a major focus of this year's budget but there is a sense among many in the sector that the proposed measure will barely scratch the surface of a major and growing problem - Australia's ageing population and the current accessibility of Aged Care assistance.

On the one hand we welcome the boost but on the other worry about it's adequacy to deal with a much needed long term plan.

*It is important to remember, at this stage the proposals are only announcements. As we all know far to well, a lot can change as the legislation navigates the political process.*

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