

# MERCER



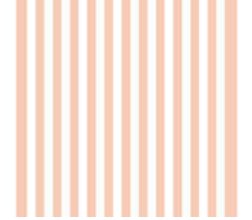
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## 2009 Federal Budget Review

Workplace and Superannuation Issues



## Contents

1. Budget in Brief.....	1
2. Mercer's response.....	3
3. Budget detail and implications .....	5
Age Pension eligibility age increase	5
Other social security changes	7
Contribution limits	9
Government co-contributions	12
Capital loss rollover for fund mergers	13
Private Health insurance changes	14
Employee benefits – employee share purchase schemes	16
Foreign-earned income exemptions	18
Paid Parental Leave	19
Miscellaneous superannuation issues	20
Social security agreements - Latvia, the Czech Republic and the Slovak Republic	22
Henry Review – Future changes flagged	23

# 1

## Budget in Brief

In addition to significant infrastructure spending, the Labor Government's second Federal Budget incorporated a number of changes affecting retirement incomes, employee benefits and health insurance.

The significant changes from a retirement incomes perspective include:

- A phased increase in the age pension eligibility age commencing from 1 July 2017 and reaching age 67 by 1 July 2023.
- Other Social Security changes include:
  - Increases in the age pension with larger increases for single pensioners.
  - An increase in the rate at which the age pension reduces due to the income test.
  - Changes to the Commonwealth Seniors Health Card income test.
  - Closing of the Pension Bonus Scheme to be replaced by a simpler and more equitable arrangement.
- Significant reductions in the level of superannuation contributions subject to concessional tax treatment.
- A reduction in the level of Government co-contributions for the next five years.
- Confirmation of recent announcements in relation to capital gains tax rollover relief in relation to mergers of superannuation funds.

Other significant changes affecting employees and employers include:

- Changes to the private health insurance rebate and Medicare Levy Surcharge.
- Changes to the treatment of employee share schemes.
- The abolition of tax exemptions for foreign earned income.
- The introduction of a paid parental leave scheme from 1 January 2011.

Some more minor changes relating to superannuation include:

- The transfer of certain inactive superannuation accounts and small lost accounts to unclaimed monies.
- An extension of the temporary draw down relief for account-based pensions.
- The ability to transfer benefits between Australian and New Zealand superannuation schemes.
- A number of new bilateral agreements which will provide relief for employers who currently have to meet superannuation and related costs in Australia as well as the employee's home country.

### **Henry Tax Review & Harmer Pension Review Reports**

The Government has also released the report from the Harmer Pension Review and the report on the Retirement Income System from the Henry Tax Review. Both reports recommended an increase in the Age Pension age. However, most of the other recommendations in these reviews have not yet been adopted by the Government.



## 2

### Mercer's response

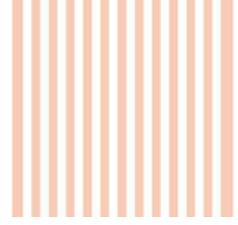
Achieving long term sustainability of the Australian retirement income system is essential. Mercer views the increase in the pension age as a necessary step as life expectancy increases. This change will help shift the mind-set that 65 is the set retirement age, which is important as the Australian population continues to age and employers need to manage, retain and attract an older workforce. It is satisfying to see this long term change to pension age policy, which Mercer has been advocating for some time in light of increasing life expectancy.

The provision of an adequate retirement income system is also important. Mercer is disappointed that cuts to concessional superannuation contribution limits appear to have been made in isolation without a clear long term retirement income framework. Tinkering with the system and making piecemeal changes will potentially damage Australians' confidence in the stability of superannuation rules. Significantly reducing the cap on concessional contributions may provide short-term budgetary relief but lacks a long-term plan or foresight.

Trustees and providers of superannuation plans will need to inform members of the relevant changes and this could incur additional costs. It is likely that higher income earners will now consider a range of other saving options outside superannuation and may appreciate employers facilitating relevant financial education seminars.

The changes are also likely to inhibit rationalisation of remaining defined benefit arrangements unless appropriate modifications are made to existing legislation.

We are pleased to see that the government co-contribution to superannuation has remained, albeit reduced. It's a valuable incentive for Australians to save for their retirement via superannuation – and it is important the industry continues to communicate the value of this scheme to members.



The announcements of a series of national infrastructure and housing-focused measures have been designed to generate demand for labour in the face of the growing unemployment figures. While unemployment is predicted to increase to around 8.5% in 2010-2011, skills shortages will still remain in some industries and sectors. Particular skills and capabilities will also continue to be in high demand.

Employers will need to continue to focus on ensuring the skills and capabilities they require now, and for the economic recovery, remain available to them by:

- Clearly understanding the skills and capabilities they need for future business performance and growth.
- Retaining key talent, high performers and individuals with the key capabilities which drive the value of the business.
- Targeting key talent from competitors at a time when companies have reduced ability to retain staff, and rising unemployment places a downward pressure on remuneration.

The reports on the Retirement Income System point to future reforms particularly in relation to superannuation taxes (including rebalancing tax concessions away from high income earners) and simplifying age pension means tests. However, considering the electoral cycle and that implementing these further reforms may potentially involve some unpopular decisions – changes are unlikely to be seen until after the next election.

# 3

## Budget detail and implications

### Age Pension eligibility age increase

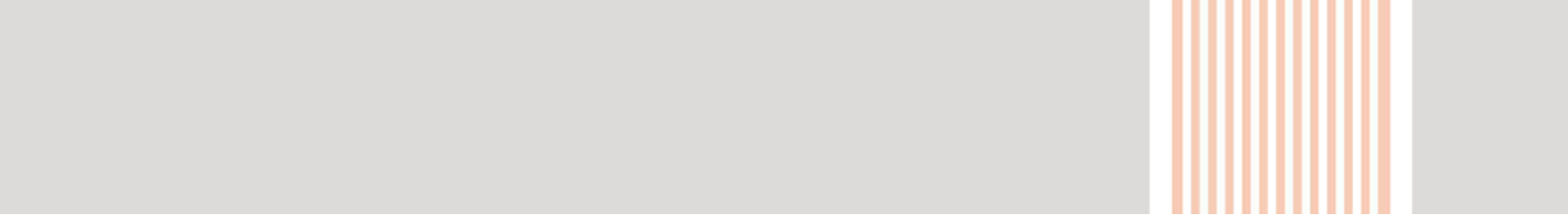
The qualifying age for the Age Pension will gradually increase from 65 to 67 by 2023 - increasing by six months every two years, commencing from 1 July 2017 and reaching 67 on 1 July 2023.

The qualifying age for the Veterans' Service Pension will remain at 60.

*The table below shows how the age pension eligibility age will change:*

Date	New age pension age	Affects people born	When group reaches new age pension age
1 July 2017	65 years & 6 months	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
1 July 2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
1 July 2021	66 years & 6 months	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
1 July 2023	67 years	From 1 January 1957	From 1 January 2024

Mercer supports this increase. The current pension age was set 100 years ago and needs to be reviewed because we are all living longer. Life expectancy has significantly increased and a mind-set that 65 is the set retirement age needs to shift.



*What this means for employers*

This policy should encourage older individuals to retain a connection with the workforce for longer allowing employers to retain experienced workers, even if this is on a part-time basis. Employers need to continue to review working arrangements, and offer greater flexibility (such as increased part-time hours, extra annual leave, working from home arrangements) to ensure that older workers can match lifestyle needs with work arrangements.

*What this means for employees*

The Government has not announced an increase in the age at which superannuation benefits can be accessed, however we note the Henry Review has argued for an increase in the access (preservation) age.

Individuals who wish to retire at the traditional age of 65 will have to, in the future, self fund their retirement for somewhere between 6 months and 2 years. This may encourage those individuals to maintain their employment on either a full time or part time basis. On the other hand, it is noted that many Australians already retire some years before the current pension age. An increase in the pension age is likely to encourage these individuals to work a little longer.

## Other social security changes

### *Increase in Pension payments*

Pensioners who receive the Age Pension, Disability Support Pension, Carer Payment, Veterans' Service Pension, Income Support Supplement, War Widow/ers pension, Bereavement Allowance, Wife Pension and Widow B pension will get an overall increase in their pension of:

- \$32.49 per week for single pensioners on the full rate of pension.
- \$10.14 per week for pensioner couples (combined) on the full rate of pension.

This is made up of an increase in the base rate and a new Pension Supplement.

### *Income test for Pensioners to change*

From 20 September 2009, payments to pensioners will be reduced by 50 cents for each extra dollar of private income above the 'income test free threshold' (currently pension payments are reduced by 40 cents for each extra dollar of private income).

This income test free threshold is currently \$138 per fortnight for single pensioners and \$240 per fortnight for pensioner couples (combined).

A transitional safety net will apply for existing pensioners who would otherwise face a payment reduction because of this change.


Some relief from the age pension income test will also be given for employment income (refer to Pension Bonus Scheme section below).

### *Commonwealth Seniors Health Card*

From 1 July 2009 salary sacrificed contributions to superannuation are to be included in the income test for determining eligibility for the Commonwealth Seniors Health Card. The Government will not proceed with its original intention of also including any gross tax-free superannuation pension income in the income test.

### *Pension Bonus Scheme abolished*

The Pension Bonus Scheme will be closed to new entrants from 20 September 2009. People already registered for the Scheme (before 20 September) will be able to remain in the Scheme and claim their Bonus when they cease working.



Instead, from 20 September 2009, a new Work Bonus will only include half of the first \$500 of employment income earned per fortnight under the pension income test - this will enable up to \$250 of earnings a fortnight to be excluded from the income test.

Mercer supports this change – the Pension Bonus Scheme was unduly complex and provided limited encouragement for short periods of work after age 65.

The changes to the Pension Bonus Scheme and its replacement with a more favourable treatment of employment income are broadly in line with the recommendations we made to the Henry and Harmer reviews although we recommended that all employment income up to a cap (rather than 50%) should be excluded from the income test.

*What this means for employers*

As 50% of the first \$500 per fortnight of employment earnings will be excluded from the income test, this measure may encourage employees who are eligible for the age pension to continue working, even if only on a part time basis. Employers should continue to engage with their older workers to understand their retirement intentions, so that planning for the retirement of older workers is up-to-date and succession plans are in place and can be implemented effectively.

*What this means for employees*

This change provides some encouragement for employees to continue working after age pension age without the complexities of the current pension bonus scheme.

## Contribution limits

Instead of increasing to \$55,000 from 1 July 2009 as currently legislated, the current limit of \$50,000 on concessional contributions will be reduced to \$25,000 in 2009/10. The transitional concessional contributions cap of \$100,000 for those over 50 (applies until 30 June 2012), will be reduced to \$50,000 per annum.

Indexation will apply to the \$25,000 cap but not to the \$50,000 transitional cap.

For defined benefit arrangements, the contributions counted for the purpose of the concessional contribution limits are called 'notional taxed contributions'. Currently there is an existing 'grandfathering' arrangement whereby, for eligible defined benefit members, their notional taxed contributions are limited to their concessional contributions limit. In other words no excess contributions tax can arise on their defined benefit notional contributions. The Government has announced that similar 'grandfathering' arrangements will apply to certain members with defined benefit interests as at 12 May 2009 whose notional taxed contributions would otherwise exceed the reduced cap. No further details of the grandfathering arrangements were provided in the budget papers.

The annual cap on non-concessional contributions will remain at \$150,000 for the 2009-10 financial year, instead of being indexed to \$165,000 as previously announced. In the future, the cap will be calculated as six times the level of the (indexed) concessional contributions cap.

Mercer is disappointed that cuts to concessional superannuation contribution rates appear to have been made without a clear long-term retirement income framework. Such tinkering with the system may provide short-term budgetary relief but lacks a long-term plan or foresight and will potentially damage Australians' confidence in the stability of superannuation rules.

We note that, currently, some public servants and politicians are not subject to the 15% tax on contributions or the concessional contribution limits. Instead, their benefits are subject to concessional rates of tax (with higher tax applicable to benefits in excess of \$1.1 million from 1 July 2009). No changes have been made to the rules for these public sector schemes which were introduced when the concessional contribution limits were introduced with the Simpler Super changes.

#### *What this means for employers*

- Employers will need to provide flexibility for employees to amend salary sacrifice arrangements having regard to the reduced limits applicable from 1 July 2009.
- Those employers who contribute for their employees at a rate in excess of the Superannuation Guarantee rate will need to consider providing their higher paid employees with the flexibility to cap their superannuation contributions, and provide appropriate adjustment to their remuneration structure.
- On the other hand, such flexibility will increase the difficulty for employers in coping with new contribution reporting rules which come into force from 1 July 2009 and also result in higher amounts counting for various income tests (eg Medicare Levy Surcharge) applicable to employees.
- Rationalisation (or improvement) of defined benefit superannuation arrangements will be made more difficult where higher income employees are involved, as changes may result in loss of the 'grandfathered' cap on defined benefit notional contributions. In particular, with the reduced limits, the cap will affect many more members and the loss of the 'grandfathering' could be a critical sticking point hampering successor fund transfers and/or transfers from defined benefit to defined contribution arrangements where there are members on higher incomes. These problems could, and may yet, be avoided or minimised with suitable amendments to legislation.
- The scope to augment superannuation benefits on a tax effective basis, either on leaving service or on transfer from defined benefit to defined contribution, will be substantially reduced.

#### *What this means for employees*

- Reduced confidence in the stability of the superannuation rules.
- Employees will need to review salary sacrifice arrangements having regard to the new limits applicable from 1 July 2009.
- Some employees may need to change their planned pattern of retirement funding – the retirement plans of some will be affected.
- Will disadvantage employees who are nearing retirement or have been out of the workforce (or worked part-time) for extended periods (e.g. women with career-breaks), as well as the self-employed, who have simply not been in a position to contribute to superannuation throughout the majority of their career.
- Significantly more members are likely to "accidentally" exceed the new limits.

*What this means for superannuation providers including trustees*

- Trustees will need to inform members of the reduced limits and amend any existing communication material referring to the contribution limits. This will include Product Disclosure Statements, benefit calculators, fact sheets etc.
- More members are likely to be impacted by limits resulting in significantly more payments of excess contribution tax (often accidentally).
- Likely to result in a lower take-up of transition to retirement pensions, due to the much reduced scope to substantially increase salary sacrifice contributions by drawing a pension to replace the sacrificed salary.
- Trustees should ensure defined benefit members are properly informed about their eligibility for the 'grandfathered' cap on defined benefit notional contributions and, in particular, about actions that would cause them to become ineligible.
- Trustees of defined benefit superannuation arrangements will need to take into account any implications for the 'grandfathered' cap in considering any changes affecting defined benefits - in particular, with the reduced limits, loss of the 'grandfathered' cap could be a critical sticking point hampering successor fund transfers and other fund mergers.

## Government co-contributions

The Government will temporarily reduce the matching rate and maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions, with effect from 1 July 2009.

- The matching rate will be 100% with a maximum co-contribution of \$1,000 per annum from 1 July 2009 to 30 June 2012, reduced by 3.333 cents for each dollar of total income over the threshold for receiving the full co-contribution.
- From 1 July 2012 to 30 June 2014 the matching rate will increase to 125% with a maximum co-contribution of \$1,250 per annum reduced by 4.167 cents for each dollar of total income over the threshold for receiving the full co-contribution.
- From 1 July 2014 onwards the matching rate will revert back to 150% with a maximum co-contribution of \$1,500 per annum reduced by 5 cents for each dollar of total income over the threshold for receiving the full co-contribution.

Co-contributions apply for incomes up to \$60,342 per annum although the maximum phases out for incomes over \$30,342.

### *What this means for employers*

- These changes have no significant impact on employers other than on any relevant general information they may supply to their employees.
- Payroll systems to deduct personal contributions from members' salaries and remit them to superannuation funds should already be in place.

### *What this means for employees*

- Although temporarily reduced, the co-contribution system remains a valuable incentive for eligible employees to use superannuation to save for their retirement. The number of employees who choose to benefit from the incentive is expected to be little changed because of the temporary reduction in co-contribution.
- For income earners under the threshold, a contribution of \$1,000 will be matched by a government co-contribution of \$1,000 for each year from 1 July 2009 to 30 June 2012.
- We note that changes to legislation following last year's Budget will mean that from 1 July 2009, certain salary sacrifice and other voluntary employer contributions will be added to income to determine eligibility for the co-contribution. This change will result in a further reduction in the eligibility for the co-contribution and will mean that some employees will no longer qualify.

### *What this means for superannuation providers including trustees*

- It is important that the value of the Government co-contribution should continue to be communicated to members.
- Although current communication material may need to be updated, existing systems should continue to handle the processing of co-contributions.

## Capital loss rollover for fund mergers

The Government has confirmed in the Budget its previous announcement that capital gains tax loss rollover relief will be available to APRA regulated funds with at least five members which merge between 24 December 2008 and 30 June 2011. The relief will:

- Permit both realised and unrealised net capital losses (including losses realised prior to the merger) held in the transferring superannuation entity to be transferred to the continuing superannuation entity.
- Permit the roll-over or transfer of any revenue losses to the continuing entity.
- Permit superannuation entities in a net capital loss position to transfer assets with accrued capital gains as well as assets with accrued capital losses on an asset-by-asset basis.
- Also apply to mergers involving pooled superannuation trusts where the continuing entity has at least five members and to mergers involving the complying superannuation business of life insurance companies.

This relief will reduce a significant impediment to mergers by ensuring the taxation value of both realised and unrealised capital losses and revenue losses is not lost when the transferring superannuation entity is wound up.

Assuming there are no unforeseen problems arising in the drafting of the legislation to reflect this announcement (the draft legislation will be released shortly), a significant barrier to fund mergers in the current environment will have been removed.

### *What this means for employers*

A significant impediment to rationalisation of superannuation funds with net capital losses will be removed for the period to 30 June 2011. In particular this will remove a significant impediment for corporate funds wishing to transfer to a corporate master trust although the reduction in the concessional contribution limits will create new barriers to the merger of defined benefit funds unless appropriate legislative changes are made.

### *What this means for employees*

Transfer of their existing fund to a more efficient fund may now be possible without losing their share of the value of accrued tax losses.

### *What this means for superannuation providers including trustees*

A significant impediment to mergers of funds with net capital losses will be removed for the period to 30 June 2011 and this change will generally enable a continued rationalisation of corporate, industry and public sector funds.

## Private Health Insurance changes

With effect from 1 July 2010, the private health insurance rebate provided in respect of private health insurance will be reduced for higher income earners. The current rebate of 30% will remain for lower and middle income earners.

To maintain an incentive for individuals to retain their private health insurance, the Medicare Levy Surcharge will also be adjusted for higher income earners. The maximum levy surcharge that will be applied (subject to income levels) if an individual does not have private health insurance is 1.5% of income.

Under the new arrangements, the rebate and Medicare Levy Surcharge for persons under age 65 from 1 July 2010 will be as follows:

Income level	Rebate	Medicare Levy Surcharge
Up to \$75,000 (singles) Up to \$150,000 (couples)	30%	Nil
\$75,001-\$90,000(singles) \$150,001 - \$180,000 (couples)	20%	1.0%
\$90,001 - \$120,000 (singles) \$180,001 - \$240,000 (couples)	10%	1.25%
\$120,001+ (singles) \$240,001+ (couples)	Nil	1.5%

Higher rebates will apply to older persons (except for those in the highest income level above).

### *What this means for employers*

Generally, employers will be unaffected. However employers who fund health insurance for their employees will be subject to higher costs due to the reduction in the rebate for higher income earners.

Administration of employer negotiated group arrangements funded by employees will become more complex as different rebates will apply to different members.

*What this means for employees*

Higher income earners will either pay more for their private health insurance or be subject to a higher Medicare Levy Surcharge.

Changes which have already been legislated and will come into effect from 1 July 2009, will result in certain salary sacrifice and some other non-compulsory employer superannuation contributions being added to income for the purposes of assessing liability for the Medicare Levy Surcharge. These changes are likely to result in some higher paid employees unexpectedly discovering that they are subject to the Medicare Levy Surcharge in the 2009/2010 year.

## Employee benefits – employee share purchase schemes

The option to defer tax on share discounts will be abolished and the \$1,000 tax exemption will be limited to individuals earning less than \$60,000 pa. These changes will apply to shares and rights acquired after 7.30 pm (AEST) on 12 May 2009.

The budget refers to "employee share schemes" which is defined in the tax legislation and generally refers to any discount provided to employees in relation to the grant of shares or 'rights'. This could apply to discounted employee share purchase plans (i.e. a 'right' to purchase a share at a discount), or the grant of shares or options, such as under long-term incentive plans. However, the budget provides limited detail therefore, and the actual impacts may not be clear until additional details, and the resulting legislation are released. To some extent, this means that employers and employees need to act now without having a chance to assess the full implications.

### *What this means for employers*

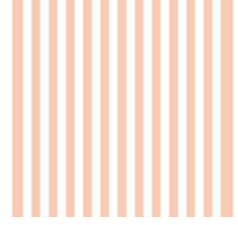
This proposal will potentially have a substantial impact on employee share plans currently being provided by employers. For plans, such as long-term incentive plans, where there are vesting periods or restrictions on the employee's ability to exercise the options or sell the shares until a future date, the requirement to pay tax in the year the shares/options are granted will result in a cash flow hardship on the employee that will make employee share plans less attractive and reduce the perceived value to the employee. Employees may be reluctant to accept share/options grants as part of their remuneration package. This will inhibit the ability of businesses to link employee reward to future business performance and increase in shareholder value by promoting co-ownership of the business by employees through the grant of equity in the company.

Employers should at least be communicating to employees the need for them to seek financial advice around the treatment of potential share or options grants. Employers may also be under pressure from employees to assist with meeting the cash flow issues which emerge.

For share purchase plans, these changes result in further reductions in the tax-concessional benefits employers are able to offer to employees.

To be an employer of choice, it is more important than ever to get creative with employee rewards and benefits. Employers need to consider other opportunities to boost workforce productivity and increase employee engagement including:

- Participation in corporate health plans on an after-tax basis, to take advantage of company-negotiated discounts offered by health funds.
- Allowing flexibility for employees to make after-tax contributions to the packaging of motor vehicles, to reduce the FBT liability.
- Considering opportunities to introduce or extend "cash flow benefits" such as annualised travel passes.

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- Providing access to financial education to ensure employees better understand their superannuation investment choices and long-term savings objectives.
  - Offering more flexible working hours and arrangements such as extended annual leave, sabbaticals, work-from-home and part-time opportunities.
  - Providing access to mentoring, coaching and structured career advancement programs for key talent.
  - Offering wellness programs to improve health-related behaviours and productivity.

Tapping into employee value propositions and considering implementation of items employees may have been asking for, especially for the best and brightest employees (if the employer knows who they are) will differentiate employers.

*What this means for employees*

Employee share plans – both share purchase plans and for equity-based incentive plans - will become less attractive from a tax perspective. Employees will need to seek financial advice to ensure they understand the tax implications of share purchase offers, or grants of shares/options, before entering into these arrangements with their employer.

## Foreign-earned income exemptions

From 1 July 2009, the government proposes to abolish the current exemption from Australian income tax on salary and wages earned by employees who spend more than 90 days working outside of Australia. Under the proposal, foreign employment income earned by employees working overseas (other than specified aid or charitable workers) will be taxed in Australia with a credit provided for tax paid on the income in the foreign country.

### *What this means for employers*

This will have substantial implications, in particular for employers who provide tax protection or tax equalisation to employees working overseas. Employers will need to review current global mobility programs to assess the cost implications and impact of the change on current employee mobility policies.

### *What this means for employees*

Employees who work outside Australia for more than the specified period will need to review their contractual arrangements with employers to clarify the impact of this change on their personal tax liability.

## Paid Parental Leave

A Government funded paid parental leave scheme will commence from 1 January 2011. This will provide income of \$543.78 (indexed) for up to 18 weeks.

Primary carers will be eligible for the scheme if they:

- Earned less than \$150,000 in the full financial year prior to the birth or adoption of a child.
- Have worked at least 330 hours over the 10 months preceding the birth or adoption of a child.
- Have also worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption.

Recipients will be unable to claim the Baby Bonus (except for multiple births where the bonus can be claimed for all but one of the children), Family Tax Benefit Part B and some dependants' tax offsets.

### *What this means for employers*

This is likely to increase the number of employees who will choose to take parental leave and return to work. The onus is on employers to take advantage of this new policy. Employers will need to focus on the skills and capabilities which individuals have, and how they can be brought back into the business to the greatest advantage at that time.

Employers need to engage with employees in meaningful dialogue to understand their intent, and work with them to facilitate re-engaging their skills and capabilities to the advantage of the business.

The ATO has advised the Government that it considers that salary paid while on parental leave forms part of Ordinary Time Earnings and should therefore be subject to the 9% Superannuation Guarantee contributions. (A new ATO Ruling including this ATO view was expected to be released this month but had not been released at the time the Federal Budget was announced.) However, the Government has indicated that it will ensure that voluntary paid parental leave and the proposed parental leave scheme payments are excluded from OTE. The Government will review this position in 2013 when it conducts a comprehensive review of the new scheme.

### *What this means for employees*

This will provide a useful benefit for some employees. However we are concerned with the complexity of the proposed eligibility criteria and the fact that it appears that employees will need to choose between the parental leave payments and the other Government benefits listed above. Individuals may require financial advice to determine the most appropriate option for them.

## Miscellaneous superannuation issues

### ***Payment of small and “insoluble” lost accounts to unclaimed monies***

From 1 July 2010, lost accounts which have a balance of less than \$200, or which have been inactive for five years and for which there are insufficient records to identify the owner, will need to be transferred to the ATO. The measure will assist in rationalising the Lost Members Register and reduce the number of small or inactive accounts that funds are required to administer and apply the member protection rules to.

#### *What this means for employees*

- Lost account balances are currently only paid to unclaimed monies (the ATO) when a member reaches age 65 and cannot be found by a fund trustee, or when a member dies and the trustee cannot ensure the benefit is received by the person entitled to receive the benefit.
- From 1 July 2010, more employees will have their benefits transferred to the ATO unclaimed monies, from where they will be able to claim their money at any time.
- Presumably the ATO will not pay any interest on balances transferred to unclaimed monies - some inactive accounts have sizable balances and the earnings forgone could be significant.

#### *What this means for superannuation providers including trustees*

- Funds will be required to put in place procedures to capture and transfer these benefits to unclaimed monies.
- It should reduce the number of small or inactive accounts that funds are required to administer.
- It may cause some issues when funds are purposely left inactive, and changes of contact details are not advised to the trustee.
- The transfers will reduce fund assets, potentially resulting in some loss of economies of scale. This is most likely to impact on Eligible Rollover Funds but may also impact retained benefit sections of corporate superannuation funds.
- Members will need to be informed of these changes and encouraged to provide updated contact details so that any benefit will not need to be transferred to the ATO.
- Fund documentation will need to be updated.

### ***Account based pensions***

The minimum income amount that must be paid from account based pensions will be halved for the 2009/10 financial year, which is an extension of the provision that was introduced in February for the 2008/09 financial year.

#### *What this means for pensioners*

Pensioners will be able to reduce the amount of income they receive from their account based pension. In some cases this may also result in an increase in their Age Pension entitlement.

#### *What this means for superannuation providers, including trustees*

- The provisions that were implemented for the 2008/09 financial year will need to be extended to the 2009/2010 financial year.
- Trustees may need to provide new Centrelink Schedules for age pension recipients.

#### ***Trans-Tasman retirement savings portability scheme***

The Government has agreed in principle to the signing of a memorandum of understanding with New Zealand to establish a trans-Tasman retirement savings portability scheme. The scheme will have effect from a date yet to be set.

The trans-Tasman portability scheme will permit transfers of superannuation savings between certain Australian superannuation funds and New Zealand KiwiSaver funds. At this stage, no further details of this scheme have been announced.

#### *What this means for employers*

- Employers who transfer employees between Australia and New Zealand will need to review their superannuation policies in relation to such transfers.

#### *What this means for employees*

- The introduction of the scheme will remove a barrier to the movement of people between New Zealand and Australia.
- It will enable these employees to streamline and consolidate their personal retirement savings which will reduce their exposure to multiple sets of fees and charges.

#### *What this means for superannuation providers including trustees*

Whilst no details are available, we assume that:

- Funds will be required to put in place procedures to allow transfers between funds in either country.
- Funds will be required to satisfy themselves that the fund they are transferring to meets any necessary conditions of rolling over.

## Social security agreements with Latvia, the Czech Republic and the Slovak Republic

- The Government will over the next four years extend the current network of reciprocal social security agreements (Bilateral Agreements) to include Latvia, the Czech Republic and the Slovak Republic.
- The agreements will also deal with “double coverage” of superannuation by removing the obligation for an employer to make compulsory superannuation or social security contributions in both countries for an employee. The obligation will generally remain in the employee’s home country.
- These agreements are expected to commence from 1 January 2011

### *What this means for employers*

- Employers with relevant employees in these countries will need to consider how to communicate the changes, when the agreements are finalised.
- Employers will need to determine in which country the obligation to pay superannuation contributions (or social security contributions) lies.

### *What this means for employees*

- Employees who have lived in both Australia and one of these countries will have the responsibility for the age pension shared, each country paying a proportion of their pension based on relevant criteria.
- Superannuation contributions (or contributions to fund social security benefits) will only be required to be paid in their home country.

## Henry Review – Future changes flagged

The Government has also released reports on the Retirement Income System issued by the Harmer Pension Review and the Henry Tax Review.

While many of the recommendations in those reviews have not yet been adopted by the Government, they point to possible future reforms. Some of the key items are set out below:

- Maintaining the superannuation guarantee at 9 per cent, not extending the superannuation guarantee to the self employed and retaining the \$450 per month threshold.
- Gradually aligning the age at which people can access their superannuation savings (the preservation age) with the increased Age Pension age.
- Improving the fairness and coherence of the pension means tests, possibly through a single test, and improve incentives to work beyond retirement age.
- Reducing the complexities resulting from the interactions between the tax-transfer system and the aged care sector.
- Maintaining tax assistance to superannuation but improving the fairness of concessions for contributions, including by broadening access to them, and considering whether the current cap on concessions is appropriate.
- Improving the ability of people to use their superannuation to manage longevity risk.
- Improving the awareness and engagement of individuals with the retirement income system.
- Future increases in the Age Pension eligibility age above 67 should be considered (including a linkage with increases in life expectancies).

Many of these recommendations are to be detailed in the final Henry report in December this year.

# MERCER



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