Federal Budget 2021-22

Superannuation and Retirement Measures Explained

A key feature of the 2021-22 Federal Budget are the opportunities giving older Australians, including self-funded retirees, greater flexibility around contributions to superannuation and accessing the equity in their home if they choose to do so.

Repealing the work test

Individuals aged 67 to 74

Under current rules, voluntary contributions to super from the age of 67 require you to be working in the financial year you choose to contribute. The 'work test', as it's known, limits voluntary contributions to those who either chose to, or are able to continue to work in their late 60's.

Recognising that retirees aged 70 today, potentially only had 20 years or more of compulsory superannuation guarantee during their working lives, the Government have announced they will amend the work test rules to assist retirees who may not have had the full benefit of compulsory superannuation throughout their working lives.

From 1 July 2022, individuals aged 67 to 74 will no longer be required to meet the work test when making, or receiving, non-concessional superannuation contributions or salary sacrificed contributions.

Personal deductible contributions will still be subject to meeting the work test, and all other existing contribution caps continue to apply.

Extending access to downsizer contribution

Individuals aged 60 and over

Since 1 July 2018, eligible individuals have been able to make additional contributions to superannuation under a once-off opportunity when they sell their principal place of residence, which has been held for a minimum of 10 years.

The 'downsizer contribution' allows eligible individuals aged 65 or older to contribute up to $300,000 to superannuation.

To improve the flexibility for Australians to add to their superannuation savings, and encourage people to downsize sooner, and increase the supply of family homes, the Government has announced the eligibility age for a downsizer contribution will be revised to age 60 from 1 July 2022.

Improving the Pension Loans Scheme

Individuals aged Age Pension age

The Government has announced an increase to the flexibility and attractiveness of the Pension Loans Scheme (PLS) for eligible senior Australians. From 1 July 2021, the following enhancements will be made:

- No Negative Equity Guarantee – borrowers under the PLS, or their estate, will not find themselves in a position of owing more than the market value of their property.
- Immediate access to lump sums – eligible individuals will be able to receive a maximum lump sum advance payment equal to 50% of the maximum Age Pension (currently $12,385 for singles, and $18,670 for couples combined).

The PLS is a voluntary, reverse mortgage type loan agreement to assist older Australians boost their retirement income by unlocking equity in their real estate assets.

Full-rate Age Pensioners can receive an annual income boost worth 50% of the annual full age pension (which, from 1 July 2021, can be taken as a lump sum). Part-rate Age Pensioners will also be able to access a lump sum worth 50% of a full Age Pension.

Self-funded retirees of Age Pension age, who do not receive an Age Pension can also receive an income boost over a year worth 1.5 times the full rate of Age Pension payment. Following the increase in flexibility from 1 July 2021, 50% of this payment can be taken as a lump sum, with the remainder as a regular income payment.

Legacy Superannuation product conversion

Individuals in certain retirement income products

In line with the intention of simplifying the retirement system, the Government will provide certain individuals with temporary options to transition out of legacy retirement income products and into more flexible, contemporary retirement products.

A two-year period will open, and provide for the conversion of market-linked, life-expectancy and lifetime pension and annuity products, available on a voluntary basis.

Such products will be able to be exited by fully commuting and then transferring the underlying capital, including any reserves, back into a superannuation fund account in the accumulation phase.

From here, a more conventional account-based income stream can commence, subject to the individuals available transfer balance cap space.

Importantly, existing social security concessions that may apply to the eligible legacy product will be lost upon conversion. However, exiting the legacy product will not cause a re-assessment of the former social security treatment of the product.

This measure is expected to commence from 1 July 2022.