Super opportunities for 2022/23

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Although the Federal Budget did not bring in any noteworthy superannuation changes except for the extension of the halved minimum drawdown rates, recent changes relating to the work test and contribution rules have been quite significant, especially for clients aged 67 to 74.

This paper provides a recap of all the recent superannuation changes that open a range of opportunities for your clients.

Significant contribution related changes

There have been a number of changes to superannuation contribution rules since the superannuation reforms on 1 July 2017. Figure 1 summarises these changes from 2017 to 2022.

Work test changes coupled with non-concessional contribution opportunities

From 1 July 2022, individuals aged 67 to 74[1] will be able to utilise the bring-forward provisions—they must be 74 on 1 July of the financial year in which the contribution is made—as well as contribute non-concessional contributions (NCCs) without meeting the work test or work test exemption. This can present a significant opportunity for clients in this age group as prior to 1 July 2022 there were limited opportunities to contribute large amounts to their superannuation.

Under the changes, individuals will also be able to make certain other contributions like spouse contributions—which count towards the receiving spouse's NCC cap—and contributions using the small business capital gains tax (CGT) cap—which is excluded from the NCC cap—if eligible, without meeting the work test until age 74.[1]

Unlike the current rules, clients triggering the bring-forward provisions at age 74 from 1 July 2022, but not using the entire available cap, will not be able to contribute the remaining amount once they turn 75.[1]

Note that the removal of the work test rules does not extend to personal deductible contributions.

Figure 1. Changes to superannuation contribution rules

1 July 2017	• CC and NCC cap limit changes • Introduction of total super balance rule for certain contributions including NCCs • Removal of the 10% rule for personal deductible contributions eligibility • SG rate: 9.5%
1 July 2018	• Introduction of Downsizer Contribution and Catch-up Concessional Regime • SG rate: 9.5%
1 July 2019	• One-off work test exemption introduced for those aged 65 to 74[1] • SG rate: 9.5%
1 July 2020	• Increase the age where the superannuation work test applies to 67 from 65 • Increase the cut-off age to trigger the NCC bring forward provisions to 67 from 65 • SG rate: 9.5%
1 July 2021	• Indexation of contribution caps including CC, NCC and the total super balance cap • SG rate: 10%
1 July 2022	• Removal of work test/work test exemption requirement for NCCs and Salary Sacrifice contributions for those aged 67 to 74[1] • Allowing the ability to use the bring-forward for those aged 67 to 74[1] • Eligibility age for Downsizer Contributions reduced from 65 to 60 • Removal of the $450 per month threshold to determine SG Contribution eligibility • SG rate: 10.5%

1. Contributions (except downsizer and mandated contributions) must be made within 28 days after the end of the month in which the client turns 75.

Opportunities to consider include:

- withdrawing funds from one member of a couple and recontributing to the other member's superannuation to better utilise the transfer balance cap of each member of the couple, and help maximise amounts in a retirement phase income stream
- recontribution strategy to help reduce any tax payable from super death benefits received by non-tax dependents
- contributing monies using the small business CGT cap, especially for retiring clients aged 67 to 74[1] who, under the previous rules, would have lost the opportunity to contribute. This can happen in cases where they end up receiving sale proceeds in a new financial year in which they may not meet the work test
- making spouse contributions, especially for homemakers who may not have been able to accumulate adequate retirement savings for themselves
- making contributions to top-up retirement savings or to provide for certain beneficiaries should the client not wish to provide for them via their estate.

Note: A valid binding nomination is required to avoid the possibility of the death benefit being paid to the estate. This may not apply to New South Wales because of the notional estate laws.

Maximising concessional contributions

From 1 July 2022, the superannuation guarantee (SG) rate will increase from 10% to 10.5%, then gradually in 0.5% increments until it reaches 12% from 1 July 2025. Table 1 illustrations the increase on a $100,000 salary.

Individuals should check with their employers if the increase in SG is being paid in addition to their base salary or if their base salary will be adjusted in order to offset the increase in the SG rate. The work test rules are still required to be met to make personal deductible contributions for those aged 67 to 74.[1]

Definition of the work test

The work test is satisfied if an individual was gainfully employed for at least 40 hours over a consecutive 30-day period during the financial year.

A one-off work test exemption is met if the client has met the work test in the previous financial year and their total superannuation balance is under $300,000 on 30 June of the previous financial year.

It is worthwhile revisiting the available concessional contribution (CC) cap space for clients after taking into consideration the SG increase in 2021/22 and 2022/23, coupled with the increase in the CC cap from 1 July 2021. This will ensure your clients do not exceed their CC cap and can help in planning to maximise their CC cap space in 2022/23 by using strategies like carry-forward concessional contributions where their total superannuation balance is below $500,000 on 30 June 2022.

Downsizer opportunities available for more clients

From 1 July 2022, the eligibility age for downsizer contributions will be reduced from 65 to 60. This measure will help increase opportunities for advice for eligible clients who sell their main residence and are wanting to contribute to superannuation. For example, individuals aged 60 to 64 who sell their home during the April-June 2022 quarter may be able to contribute from 1 July 2022, as long as the contribution is made within 90 days of settlement.

The increased opportunity to make a downsizer contribution coupled with NCC contributions using the bring-forward rule, can in some cases, enable contributions of up to $1.26 million for eligible members of a couple—for example, $330,000 each as an NCC and $300,000 each as a downsizer contribution.

Extension of the halved minimum drawdown pension rates

The 2022/23 Federal Budget measure to extend the 50% temporary reduction in minimum drawdown pension rates has already been implemented by amending regulations on 1 April 2022. The temporary reduction has been extended for another year until 30 June 2023. The reduced minimums apply to account-based pensions (ABPs) and annuities, transition-to-retirement pensions and term allocated pensions, as shown in Table 2.

In response to the COVID-19 pandemic, the minimum drawdown pension rates were initially reduced for 2019/20 and 2020/21. This was extended for 2021/22 and 2022/23. Clients currently taking the reduced minimums may want to check with their funds whether they need to opt-in again for 2022/23 if they wish to continue doing so.

Individuals with ABPs can use this opportunity to consider taking the lower minimums as pension payments for another year and withdraw any additional amount as a lump sum to meet cash flow requirements. Lump sum withdrawals from an ABP are debits for the purposes of an individual's transfer balance cap and as

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Table 1. SG rate increase calculated on a salary of $100,000

Financial year	20-21	21-22	22-23	23-24	24-25	25-26
SG rate	9.5%	10.0%	10.5%	11.0%	11.5%	12.0%
CC cap limit	$25,000	$27,500	$27,500	$27,500	$27,500	$27,500
SG contribution	$9,500	$10,000	$10,500	$11,000	$11,500	$12,000
Remaining available CC cap	$15,500	$17,500	$17,000	$16,500	$16,000	$15,500
Cumulative unused CC cap at the end of each year	$15,500	$33,000	$50,000	$66,500	$82,500	$98,000

Note: No unused cap left over from 2018-19 and 2019-20 in this example. CC cap assumed to remain at $27,500 for 2023-24, 2024-25 and 2025-26.

Table 2. Minimum drawdown rates

Age	2019–20 to 2022–23 financial years (inclusive)	From 1 July 2023
Under 65	2.0%	4.0%
65–74	2.5%	5.0%
75–79	3.0%	6.0%
80–84	3.5%	7.0%
85–89	4.5%	9.0%
90–94	5.5%	11.0%
95 +	7.0%	14.0%

such can increase their cap space which can be used in the future. For example, to help maximise the amount they can receive as a death benefit income stream.

Retirement Income Covenant

The long-awaited Retirement Income Covenant (RIC) that was recently legislated and effective from 1 July 2022, imposes additional obligations on the trustees of most superannuation funds to formulate, review regularly, and give effect to a retirement income strategy. The strategy must be for the benefit of beneficiaries of the fund who are retired, or approaching retirement, and places the onus on the trustee to address how those beneficiaries will be assisted to achieve and balance the following objectives:

- To maximise expected retirement income over the period of retirement.
- To manage expected risks to the sustainability and stability of retirement income over the retirement period including:
  - longevity risks
  - investment risks
  - inflation risks
- To have flexibility with access to funds over the period of retirement.

While the obligations of the RIC do not apply to advisers, the competing objectives of the RIC are the same challenges advisers routinely seek to solve for today. However, what might be new to some advisers will be the application of a market-linked lifetime annuity, in combination with other income sources, including income from ABPs, to solve for these competing objectives.

A market-linked lifetime annuity, such as Challenger's Liquid Lifetime (Market-linked payments), combines the benefits of regular income payments for life and exposure to investment markets. **FS**

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