Media Release No: 35 **1st December 2009**

Unique Super Opportunity for Eligible Senior Public Servants

Senior Public Servants, judges, school principals and doctors working (part time) within the State Government system have a unique opportunity to 'super charge' their retirement savings and reduce the tax paid on a large portion of the earnings to no more than 16.5%, says Adelaide based financial strategist Theo Marinis.

"Under the Australian constitution, the Federal Government cannot tax state governments and therefore State Government superannuation funds. This is how such funds earn the title 'Constitutionally Protected Funds' (CPF).

Constitutionally Protected funds therefore, (as confirmed by the Australian Taxation Office (ATO) information paper "Super Contributions – for defined benefit and untaxed funds") are unaffected by the recent budget changes which limit super contributions to $25,000 per annum (under age 50) and $50,000 per annum (over age 50)" Theo said.

"Provided the CPF is willing to accept additional contributions (and various other legal requirements are satisfied) then the person making such contributions is free to do so. An upper limit of $1.1 million (indexed) however, applies to benefits transferred out of the CPF environment, consequently careful planning is vital.

"The benefits provided by this opportunity are illustrated in the following examples:

Case Study 1 - A PC08 School Principal, or in fact any eligible member of a constitutionally protected super fund, aged around 49 years of age and earning $110,000 pa who has a life partner which earns sufficient for them both to live on, could salary sacrifice up to 100% of their salary into a constitutionally protected super fund rather than the $25,000 limit for ordinary super funds in order to maximise the couple's retirement benefit.

Case Study 2 - A 45 year old Orthopaedic Surgeon, working 20% of his/her time at two of Adelaide's teaching hospitals and receiving $161,000 pa from each source for their work, also has the maximum combined employer Super Guarantee (SG) of $28,922 from these two employers (the maximum threshold of the 9% SG payable in 2009/10) paid into his/her superannuation fund. In addition, earnings from private practice total $700,000 per annum.

Superficially, the usual SG contribution of 9% ($28,922) would breach the eligible limits for someone under age 50 and create a tax liability for the excess SG contributions.

"If however, the super funds of both teaching hospitals are Constitutionally Protected, the doctor can legally salary sacrifice up to 100% of his/her public hospital income to superannuation (potentially $322,000) with no tax liability being generated and cutting the tax paid on the majority of this income from 46.5% to zero.

"In both these examples the Federal Government will however, get its slice in the future with a tax of 16.5% on the withdrawal of the fund balance, but in the meantime the tax deferral has contributed to the considerable growth of the funds in the accumulation phase.

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"Obviously, the benefits of such an opportunity will depend significantly on employment arrangements (for example in Case Study 2 the doctor an employee of the hospital is contracted to provide a service), the hospital's procedures and the CPFs own limits on such super contributions.

"CPF members also need to beware of overfunding their CPF as the tax take can be up to 46.5% on withdrawals in excess of the current $1.1 Million (indexed) CPF threshold, therefore careful financial planning is required.

"Experience with superannuation over the last 20 years tells me that inevitably the Federal Government will close this opportunity, subsequently I would advise people who are members of, or who are able to become members of Constitutionally Protected super funds seek independent advice and to act promptly.

"Superannuation law traditionally 'grandfathers' changes, which means future legislation has not been retrospective in respect of strategies which are implemented within current legislative parameters, which gives a safety net to eligible people following this approach.

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Constitution allows super loophole

State government funds can bypass contribution limits

TIM BLUE

AS Wayne Swan chews over the tax system and the thinking of Ken Henry's tax review and Jeremy Cooper's ideas on superannuation, let's hope he keeps one credo paramount: that is, to make superannuation simple, fair and free of inconsistencies.

One foible at the moment is especially irritating: the cap on how much can go into super each year at a concessional tax rate — a sum of $25,000 for anyone under 50 — introduced in last year's federal budget.

For baby boomers this constriction is a pain. It frustrates long-standing practices where everyone borrows to the hilt for a mortgage and to rear a family; then, as children leave home, the resulting spare cash is directed into super. This is much less likely to happen under the new cap.

It is becoming apparent that up to 15 per cent of all super savers can sidestep this constraint by joining or staying on as members of government super funds that are not covered by the cap rules that apply to mainstream commercial retail funds.

Senior public servants, judges, school principals and doctors working (even part time) within the state government systems of most states can load their super funds — within constraints — to pick up the tax concessions and later make use of transition to retirement arrangements.

"It means they can reduce the tax paid on a large portion of the earnings to no more than 16.5 per cent," Adelaide-based financial strategist Theo Marinis says. "Under the constitution, the federal government cannot tax state governments and therefore state government superannuation funds, so they are known as 'constitutionally protected funds'." The funds include several from Funds SA in South Australia and GESB in Western Australia, the former Government Employees Superannuation Board.

The loophole arises from Federation a century ago, when the states gave taxing and other powers to the federal government, and the regulation of banks that traded beyond state boundaries.

Those that didn't, such as the state-owned banks now largely taken over by the Big Four, were free to lend and borrow under more relaxed state law. Unhappily, several tripped up.

An ATO information paper published in December, Super Contributions — for Defined Benefit and Untaxed Funds, confirms that constitutionally protected funds are not affected by the budget changes that cap concessional super contributions to $25,000 a year for those under 50 and $50,000 a year for those over 50.

"Provided the CPF is willing to accept additional contributions [and various other legal requirements are satisfied], then the person making such contributions is free to do so," says Marinis. "An upper limit of $1.1 million [indexed], however, applies to benefits transferred out of the CPF environment, so careful planning is needed."

Government-employed professionals are freed from the contribution caps

For those who can make use of them, the options are beaut. A senior school principal, for example, aged 49 and earning $110,000 a year who has a life partner who earns enough for both of them to live on, could salary sacrifice up to 100 per cent of salary into a constitutionally protected super fund rather than the $25,000 limit for ordinary super funds, to maximise the couple's retirement benefit.

Or take a 45-year-old orthopaedic surgeon, working 20 per cent of their time at two of Adelaide's teaching hospitals and receiving $161,000 a year from each for the work, who also has the maximum combined employer super guarantee of $28,922 from these two employers (the maximum threshold of the 9 per cent SG payable in 2009-10) paid into their superannuation fund. In addition, earnings from private practice total $700,000 a year.

At first sight, the usual SG contribution of 9 per cent ($28,922) would breach the eligible limits for someone under 50 and create a tax liability for the excess SG contributions.

"If, however, the super funds of both teaching hospitals are constitutionally protected, the doctor can legally salary sacrifice up to 100 per cent of his or her public hospital income to superannuation [potentially $322,000] with no tax liability being generated and cutting the tax paid on the majority of this income from 46.5 per cent to zero."

Ultimately the federal government will get its slice with a tax of 16.5 per cent on the withdrawal of the fund balance, but meanwhile the deferred tax means the funds can grow strongly in the accumulation phase.

For many others, of course, such anomalies are not fair.

"Not sufficient thought went into these cap arrangements," says Michael Dwyer, chief executive of First State Super, the largely accumulation-based super scheme for NSW public servants.

"For example, a nurse who returns to the workforce after raising a family can only pull together $250,000 on a concessional basis over 10 years, when she would be thinking of retiring from what can be a back-breaking job."

One result can be that those seeking to boost retirement savings will turn to borrowing and negative gearing arrangements in shares and property.

"Is that what the government really wants, for someone over the age of 50 to become involved in such schemes?" Dwyer asks.

"These caps are punishing, are gender-biased and introduce more uncertainty in super."

Marinis says his experience with superannuation during the past 20 years leads him to think that inevitably the federal government will close this opportunity. "I would advise people who are members of, or who are able to become members of constitutionally protected super funds, to seek advice and act promptly."

Changes to superannuation law are usually "grandfathered", which means existing arrangements stand and savers are not caught out by a retrospective reach.

But given the track records of all government, there remains an element of doubt.

"Whatever the recommendations and whatever the system looks like this time next year, let's hope it's built on fairness and simplicity," Mercer retirement partner David Knox says.

"It is absolutely necessary to keep the system simple and fair.

"The government should make holistic changes, while maintaining the aspects of the system which have been instrumental in its success to date, as opposed to just tinkering around the edges and continuing to change the rules every budget night."

PROTECTED SPECIES

- Caps apply to super contributions at a concessional tax rate: $25,000 for those under 50 and $50,000 for anyone older.
- Counted towards the cap are the usual 9 per cent salary contributions.
- Exceptions apply in so-called constitutionally protected funds, in several states.
- Those to benefit include senior public servants, judges, teachers and health workers.
- Missed years of contributions cannot be used retrospectively. Miss a window of contributions and the opportunity is lost.

Tax break for state super

Anthony Keane

PEOPLE who work for the State Government can escape new tougher limits on contributions to superannuation, according to Adelaide-based financial strategist Theo Marinis.

He says public servants, including teachers and judges, can avoid the penalty taxes that others face when pumping too much money into super.

"Under the Australian constitution, the Federal Government cannot tax state governments, and therefore state government-managed superannuation funds," says the managing director of Marinis Financial Group.

This means that state government funds such as Super SA are unaffected by this year's Federal Budget changes that limit super contributions to $25,000 for people who are aged under 50 and $50,000 for those over 50.

Super SA has more than 195,000 members, but while they are winners as the money goes in, they face taxes when it comes out – unlike other super fund members who pay zero tax if aged over 60.

"The Federal Government gets its slice in the future with a tax of 16.5 per cent on the withdrawal of the fund balance," Marinis says.

"Members should beware of overfunding their fund, as the tax take can be up to 46.5 per cent on withdrawals in excess of the current $1.1 million threshold."

However, for most members approaching retirement, it means they can potentially salary sacrifice their entire wage to boost their super balance – something the majority of the population can't do.

Media Release No: 50 **21st August 2013**

54/11 - Public Servants Have Great Options

"With one third of Australia's public servants becoming eligible for retirement in the next decade, most do not realise how many options they have to maximise their retirement incomes beyond taking the standard Commonwealth Superannuation Scheme (CSS) '54/11' option of early retirement" according to financial strategist Theo Marinis.

"From my own decade working with the ATO, Centrelink and the Insurance & Superannuation Commission, I recall hearing time and again from my older colleagues about the 'fabulous' option of resigning at 54 years and 11 months and the huge retirement benefits it could provide one month later.

Years on, I realised that they were either ignoring or unaware of the other many complimentary opportunities available to them.

"When the '54/11' decision is being made, I believe that public servants need to seek advice in respect of their lump sum benefit option, together with the options which are available to them to reduce or eliminate most personal taxes on their defined benefit pension, and their CSS lump sum payment.

"Such advice should also be structured to include provision to minimise future taxation exposure in the event that retired life proves too quiet and they want to return to the workforce, either on a part time or full time basis.

"Whilst there are times when public servants attract a lot of unnecessary flack, they should also realise that they have skills and experience for which there is an ongoing demand. Being 'lured' back to work is a possibility given our demographics and the second time around it can be on their terms if they have the right pension structures in place.

"From my experience decisions made about resigning at age 54 and 11 months need to have flexibility built into them.

"The Baby Boomers have already started to retire and many have found they prefer to work a few days a week and take very long weekends. Those following should be aware of this trend." Theo said.

For further information regarding 54/11 please visit our webpage at: http://marinisgroup.com.au/our-services/54-11-an-easy-decision

Or feel free to contact Theo at his office on the details below.

Note: *Theo Marinis was a member of the CSS prior to establishing Marinis Financial Group. He worked for the ATO, Centrelink and The Insurance and Superannuation Commission (ISC).*

** This case study has been written with the full approval of the client/s involved. No names have been used to protect their privacy.*

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Media Release No: 51 **21st August 2013**

100% Lifetime Pension May Not Be the Best

With approximately two thirds of federal public servants eligible to retire over the course of the next decade, one retiree has shown how using the Commonwealth Super Scheme (CSS) '54/11' rules, one can virtually receive as much net income in retirement than when one was working and also have access to more than $200,000 in capital, should they ever need it.

"Financial Strategist Theo Marinis, a former Commonwealth public servant himself, said his client 'Samantha' had come to him a few years ago, when she was 52 saying that every retired public servant she knew was disappointed about the superannuation decisions they had made because their retirement income was well below what they were earning whilst working!

"Furthermore, Samantha was frustrated because the CSS rules were so complex and she was certain there had to be a better outcome.

"The federal public service had been Samantha's life. She joined straight from school and dedicated almost 37 years of service. Over that time she made some terrific friendships and almost all of them had heard about the 54/11 option – but none of them really knew how to make it work best for them and their loved ones.

"The 54/11 option is a choice available to federal public servants (in CSS) which simply means advising the employer that you are resigning before your 55th birthday and then preserving the very generous superannuation benefit you are entitled to in CSS.

"Post age 55, retiring federal public servants are generally entitled to a healthy lifetime pension, usually worth around 60 - 70 per cent of their former net pay.

"After much discussion with Samantha and further research, on my advice Samantha locked in her retirement benefit two years before she turned 55, by requesting her CSS balance be switched entirely into cash and as it turned out, this occurred just before the GFC, essentially 'weatherproofing' her retirement income, which was a terrific idea.

"This meant Samantha had certainty. Yes, the share market collapsed and has since risen, but what Samantha wanted was to lock in her future retirement income as she planned to take care of her aged mother on a full time basis.

"Samantha's net employment income was $53,488 pa before she ***resigned*** from the public service approximately one month before turning age 55. Then the day after turning 55 she advised CSS that she had now ***retired.***

"With my help, Samantha chose the Standard Pension and Lump Sum option as the best choice for her circumstances. I then implemented on her behalf, a cash-out and re-contribution strategy and invested the proceeds of her CSS Superannuation lump sum in a very tax-effective Account Based Pension (ABP) to supplement her Standard CSS pension.

"By following a number of logical annual superannuation contribution strategies, Samantha now pays no personal tax and her net retirement income is $53,040 pa; an increase of more than $13,000 per year on what it would have been had she just ticked the box and received a 100% maximum CSS pension. This additional net income each year enables Samantha to eat out regularly with her friends and to be able to afford to go on a holiday every year.

"Furthermore, should she need it, Samantha now has access to $226,000 in Tax Free Component in her Account Based Pension.

"In addition, Samantha's income will only be marginally taxable when she turns 65, however, at that time she should be eligible for a small Age Pension entitlement (enough to pay her personal tax bill at that time). As a result of this, Samantha will have access to all the generous benefits available to Age Pension recipients; of which two are discounted pharmaceuticals and council rates.

"Finally and most importantly, Samantha's pensions will all be fully indexed; subsequently she will not become poorer as she gets older like many of her former colleagues!

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"Recently Samantha told me her former public servant friends who were also retired said they were amazed at how she had been able to 'wrangle' such a great financial outcome.

"Samantha now also has a superannuation asset she can leave to her family and she has the certainty that she is in control of her financial future.

"As I myself was a former public servant who grew up in a migrant family, I have been shocked to see how governments overseas have cut former public servant's pensions as a way of balancing budgets, regardless of promises made to them. Samantha has now been able to protect herself from such financial pain." Theo said.

For further information regarding 54/11 please visit our webpage at: http://marinisgroup.com.au/our-services/54-11-an-easy-decision

Or feel free to contact Theo at his office on the details below.

Note: *Theo Marinis was a member of the CSS prior to establishing Marinis Financial Group. He worked for the ATO, Centrelink and The Insurance and Superannuation Commission (ISC).*

** Not her real name – but please NOTE that this is a real life case study (published with the approval and consent) of an actual client of Marinis Financial Group. All details are correct other than the name of the person involved, which have been changed to protect their privacy.*

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Media Release No: 52 **21st August 2013**

Public Servants Can Get a Lot More Cash in Retirement

Tens-of-thousands of Australia's federal public servants who qualify for the 54/11 retirement scheme can end up hundreds of thousands of dollars better off by undertaking careful financial planning, according to Adelaide based Financial Strategist and former public servant, Theo Marinis.

"Probably the best way to open eligible public servant's eyes to the tremendous opportunity that they have is by presenting a case study (see below). I have used a real scenario for real clients and have changed their names and genders to protect their identities," Theo said*.

"Damian and Jill will be dramatically better off. Of course every person has a unique situation, but in this real-life case study Damian and Jill will:

- **Save approximately $37,000 pa in combined personal tax, all of which will be directed to their super accounts;**
- **Increase their combined super balances (inclusive of the above tax savings) by approximately $94,300 pa net;**
- **Not incur tax penalties for Excess Contribution or Untaxed cap breaches (despite this fast track growth in super);**
- **Have a combined net income of $63,000 pa and the ability to draw greater income or capital as required, very tax effectively;**
- **No longer need to service debt, saving at least $2,000 pa in interest payments; and**
- **Have access to ongoing advice to ensure their retirement income is maximised in a tax optimal manner.**

"So let's look at the specific case of Damian and Jill:

- Damian, a Commonwealth Superannuation Scheme (CSS) member, decided to retire in August 2012 after implementing the 54/11 CSS pension strategy. His retained gross CSS pension (having also taken the maximum possible CSS lump sum) was $47,398 pa in 2012/13.
- Jill is a few years younger than Damian, and a senior state government public servant. She wants to work for a few more years, though they both intend to take annual overseas holidays. Her super fund balance in the state government fund is currently around $1,000,000.

  They own their home and cars and when Damian retired, he had a line of credit facility with an amount owing of approximately $30,000 on which they were paying interest at around 7% pa. They also have two adult children with higher education debts from which Damian and Jill wished to free them.
- Damian, an amateur international affairs student, has watched with alarm as retired public servants and teachers in Portugal, Italy, Ireland, Greece, Spain and Cyprus have borne the brunt of government cut backs. He was concerned at the prospect that he and Jill might have their retirement income slashed in their older years.
- Jill's concern was that under current CSS superannuation rules, there would be no residual benefits to their estate if they did not take the maximum lump sum possible now, retaining only the basic (but still generous) CSS pension for Damian and using the CSS/AGEST lump sum to commence his fully accessible and tax friendly ABP.
- Damian and Jill consulted Theo Marinis after being referred by a friend who was extremely happy with the pre and post 54/11 strategy recommendations Theo had implemented on his behalf.
- They advised Theo that they sought at least $60,000 pa as a combined income and they wished to tax effectively boost and grow their super as far as practical, particularly whilst Jill still works.

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What was / is the plan?

- The first recommendation was the withdrawal of $30,000 from Damian's CSS/AGEST super in order to repay the line of credit, immediately saving over $2,000 pa in interest. We did not recommend complete closure of this facility, as this could be retained for future use, as required.
- Timing in this case was imperative. To take advantage of a new tax year, Theo recommended Damian rollover his remaining CSS/AGEST super into an Account Based Pension post 1 July, whilst utilising his remaining lump sum payouts (ie: his Long Service and Annual Leave) to supplement their income in the intervening period.
- As part of their immediate strategy, Theo recommended Damian set up a Super Spouse Account within Jill's State Government super fund (permissible under the rules of Jill's fund) so that he can receive a tax-effective, annual transfer of Jill's (salary sacrificed) super contributions.

  Effectively, Jill's super salary sacrifice of approximately $86,000 pa into her state government super is each year transferred to Damian's Spouse Account. Given Jill's current super balance, this action was important to ensure Jill's super balance does NOT breach the $1,315,000 untaxed cap that is available under her State Government super fund (resulting in any accumulation above this amount being taxed at 46.5%).
- Finally, we recommended that Damien set up a new super account to enable him to make ongoing annual personal contributions of $25,000 pa to offset against his taxable CSS pension income.

The outcome

Through the implementation of the strategy recommended by Theo, Damian will immediately save almost $6,000 pa in personal tax and over $2,000 pa in interest, which otherwise would have just been lost. (This tax saving for Damian is over and above a gross Account Based Pension (ABP) income of $14,000 pa from his re-invested, retained CSS/AGEST lump sum **and <u>*in addition to*</u> his retained gross CSS Defined Benefit Pension of $47,398 pa in 2012/13).**

Jill, who has been a public servant for quite some time, will no longer risk breaching the untaxed cap available under her State Government super fund ($1,315,000 in 2013/14). Breaching this cap would result in any accumulation above this amount being taxed at 46.5%.

Most importantly, after implementing all of Theo's recommendations, Damian and Jill currently have an annual combined net income of approximately $63,000 pa, comfortably higher than their stated combined income need of $60,000 pa, despite substantial additional super contributions for each of them!

In addition, they have the ability to increase their income very tax effectively, simply by increasing Damian's Account Based Pension income, as and when required.

With some careful planning and with a little bit of careful restructuring, Damian and Jill will be able to optimise their superannuation savings for their retirement and later leave a significant legacy for their children and grand-children.

In the interim, Jill is able to salary sacrifice (within the Constitutional Protection of her state government fund) all but $37,000 pa of her gross salary as superannuation contributions. In fact, Jill will salary sacrifice approximately $86,000 pa into her state government super fund, effectively boosting their combined super balances (despite Damian's Account Based Pension drawdown). As a result, Jill's personal tax bill will reduce by approximately $31,000 pa, which flows straight into her super fund!

Effectively Jill's tax saving into her superfund is more than Damian is drawing from his Account Based Pension, hence their combined super is being fast tracked before they BOTH fully retire a few years down the track.

Damian and Jill are now debt free and there will be far more cash to live on - in excess of the $60,000 pa they identified as needing (and with no debt to service).

They have paid off their children's education debt; they have the ability to (very tax-effectively) take greater income or lump sums (as required) from Damian's Account Based Pension, they will have control of their income (not the government) and very importantly, they will have a significant asset to leave their children.

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Media Release No: 53 **21st August 2013**

Super Opportunity for Ex-Public Servants
34/11 – You CANNOT be serious!

Most Federal Public Servants have heard of the benefits available to them under the 54/11 retirement rule, but most don't realise exactly HOW it works and that it can work just as well for them if they are 34, 44 – or indeed any age (prior to age 55) when they finish up, says Adelaide based Financial Strategist (and former public servant) Theo Marinis.

"After the next Federal election one thing is for certain, both sides of politics have the Federal Public Service lined up for mass redundancies," Theo said.

"When politicians talk about cutting red or green tape, or reducing budget pressures, it is really code for attacking the people who deliver services to Australia – our public servants.

"The case study of John and Tatum (below) is a great one for demonstrating how one public servant made a smart decision around his superannuation when made redundant at age 34. The same decisions can still be made today by eligible CSS members and they will benefit enormously."

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John* joined the public service at age 17 and while a member of the public service, undertook his IT qualifications on a part-time basis. After 17 years of hard work, a restructure caused John's job to be made redundant.

As John is a very diligent and well informed person, he took the time to read the legislation and the CSS rules. He decided to undertake exactly the same process as his colleagues who were using the 54/11 opportunity.

Twenty years later, now aged 54, his old CSS benefit is available as a full ***Pre Tax*** CSS Pension (with no lump sum) of $50,550 p.a. – or a Part CSS pension of around $33,460 p.a. plus a lump sum commutation of approximately $184,700.

Put simply, John preserved his superannuation entitlements with the CSS scheme when he took his redundancy 20 years ago. He will now advise the CSS the day after his 55th birthday that he has "retired' and will become eligible, as demonstrated below, for the benefit entitlement which he has previously secured.

While working for himself, John set up a Self-Managed Super Fund (SMSF) which today is worth about $139,000 and now includes his partner Tatum's retirement savings.

There is an old saying in legal circles that "A lawyer who represents himself in court has a fool for a client" which may explain why John came to Marinis Financial Group (MFG) for advice. He knew a lot about superannuation but he needed a dispassionate adviser who could help both he and Tatum make the right decisions.

We established a superannuation strategy which included John's entitlements from CSS, their Self-Managed Super Fund (SMSF) (including the contributions he has made through his current work) and the sizeable Term Deposit (TD) funds they have earmarked for their eventual new home.

In simple terms, John and Tatum will now be able to have their cake and eat it too.

When John turns 55 we will implement (on his behalf) one tax-free account based pension for him, with the non-super TD funds and a second "taxable: account based pension with the proceeds of his SMSF and the lump sum withdrawal of his CSS account (which was preserved when he left the public service 20 years ago and has now accumulated to a considerable amount as detailed below). On our advice, John has decided to take the Standard indexed CSS pension and this Lump Sum withdrawal known as a "commutation".

The couple will still be able to work on their own terms and contribute to their super fund to help it grow, but importantly, they will be able to take home an annual net income in excess of what they are earning now – even if they do nothing. They will also pay minimal tax.

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John is also very keen to have control of his own pension funds because in his travels he has seen former teachers, nurses and public servants around the world who have had their government provided pensions slashed at the whim of a parliament as 'cost saving' measures.

He feels he didn't work so hard for so long to live in poverty, hence part of the reasoning behind taking a Standard Pension and lump sum rather than the full CSS pension and no lump sum. (Note: Greece, Cyprus, Spain, Portugal, Italy and Ireland have all cut back government pensions in recent times as austerity measures.)

In doing so he is diversifying his pension income, retaining a significant part CSS pension but also access to some of his CSS entitlements, via the lump Sum commutation and rollover to account based pension. As a result of this strategy, going forward, he will have less tax to pay, eventually qualifying for a considerable age pension entitlement.

John and Tatum's real figures are below. In the first years of this strategy they will take home in excess of their stated required $50,000 pa **after tax** income – which is much higher than their expectations. At the same time they will still be growing their super through new contributions back into their super accounts!

Combined with a little bit of work (when, how and for whom it suits them) they will be able to travel the world safe in the knowledge that their retirement is secure.

In addition, when they reach pension age (which for them will be 67) they will also be entitled to almost $8,000 pa in combined Centrelink benefits, despite these two Account Based Pensions and John's CSS Pension – plus access to the comprehensive range of discounts available to Centrelink clients (including rates, transport and most importantly, medications).

So, how did it work?

After John's retirement at age 55 years, and based on the estimated SMSF, CSS lump sum and Bank TD balances available, John made a $450,000 Non-Concessional Contribution (NCC) to commence a 100% Tax Free Account Based Pension (ABP).

Next he rolled over and consolidated the balances of his CSS and SMSF funds (approx. $324,000 net combined) to a second Taxable Component ABP, to supplement his CSS pension and IT consulting fees.

The McEnroe's retain a cash reserve $20,000 X 3% pa / 2 = $300 pa each.

John's Estimated Annual Income		**Tatum's Estimated Annual Income**	
Bank Interest ½ Share	$ 300	Bank Interest ½ Share	$ 300
$450k Tax Free ABP 4% min	[$18,000]		
$324k Taxable ABP 4% min	$ 12,960		
CSS Gross	$ 33,466		
Consulting Income	$ 11,400	Consulting Income	$5,700
TOTAL GROSS	**$ 76,126**	**TOTAL GROSS**	**$6,000**
<u>**LESS**</u> Tax Free (NANE) ABP	- $ 18,000		
Assessable Income	**$ 58,126**	**Assessable Income**	**$6,000**
<u>**LESS**</u> - CC to Super – John - Adviser Service Fee	- $ 23,050 - $ 4,296		
Taxable Income pa	**$30,780**	**Taxable Income pa**	**$6,000**

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John's Estimated Annual Tax Position	
Tax on Taxable Income	$ 2,390
Medicare Levy (1.5%)	$ 0
TOTAL PAYABLE	**($2,390)**
LESS - Tax Offsets	
Taxable ABP Tax Offsets	$1,944
LITO	$ 445
TOTAL - TAX OFFSETS	**$2,389**
John's Personal Net Tax *Payable*	**$ 1**
Tatum's Estimated Annual Tax Position	
Tatum's Personal Net Tax *Payable*	NIL
Net Combined Cash flows	
Total Cash flows (Gross)	**$82,126**
LESS - CC to Super – John - Adviser Service Fee John's Net Personal Tax	 - $23,050 - $ 4,296 - $ 1
Net Combined Cash flow ($1,053.44 net per week)	**$54,779**
TAX PAID	
Net Personal Tax - John	$ 1
Contribution Tax Paid by John's Super Fund on his CC to super	$ 3,458
TOTAL TAX PAID	**$ 3,459**

A further point to note is that John and Tatum's combined super assets will continue to accumulate, as only the minimum Account Based Pension (ABP) income is being drawn in the strategy above.

BOTH pension funds income is Tax Exempt, with John's Net Super Contributions being added to the pool i.e:

ABP 1	$450,000	100% Tax Free
	Opening Balance	**(A1) $450,000**
	Estimated LT Balanced	
	Fund earning rate 7%pa	+ $ 31,500
	Tax	NIL
	Less 4% min Pension	- $ 18,000
	Closing Balance	**(B1) $463,500**
ABP 2	$324,000 Taxable R/O	100% Taxable
	Opening Balance	**(A2) $324,000**
	Estimated LT Balanced	
	Fund earning rate 7%pa	+ $ 22,680
	Tax	NIL
	Less 4% min Pension	- $ 12,960
	Closing Balance	**(B2) $333,720**

Super with New CC's		$ 23,050
	Less Fund Tax at 15%	- $ 3,458
	Closing Balance	(B3) $ 19,592
A1 + A2 = Combined Opening Super / Pension Balances		$774,000
B1 + B2 + B3 = Combined Closing Super / Pension Balances		$816,812

This equates to a 5.5% Net Balance increase year on year based on the 7% pa assumed long term earning rate above.

(Note: Even if the ABP funds only receive a 4% return per annum return, the nominated pension drawdowns will be equal to income taken and new John's super contributions will see a growth in the combined ABP and Super balances.)

John was clear that he did not want to continue the SMSF going into retirement, so we were able to provide a cost effective and totally flexible non SMSF strategy to suit their future plans.

John said "Theo was able to take my situation into full account and provide a strategy that gave us scope and flexibility into our retirement and knowing that the technical issues have been resolved."

John's situation highlights that you need ongoing professional financial planning advice in particular as key circumstances change, not only at retirement, but at key milestone dates such as well before you retire and then approaching 60 and reaching pensionable age.

For further information regarding 54/11 please visit our webpage at: http://marinisgroup.com.au/our-services/54-11-an-easy-decision

Or feel free to contact Theo at his office on the details below.

Note: *Theo Marinis was a member of the CSS prior to establishing Marinis Financial Group. He worked for the ATO, Centrelink and The Insurance and Superannuation Commission (ISC).*

** Not their real names – but please NOTE that this is a real life case study (published with the approval and consent) of actual clients of Marinis Financial Group. All details are correct other than the names of the people involved, which have been changed to protect their privacy.*

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Juicy options for retiring mandarins

SOME PUBLIC SERVANTS STAND TO GAIN IF THEY RETIRE BEFORE AGE 55

TIM BOREHAM

WITH the new Coalition government pledging to slash the size of the federal bureaucracy, it's never been a more nervous time to be a public servant.

Mass redundancies aside, two-thirds of public servants are eligible to retire during the next decade, but few are aware of retirement pension options that can make a huge difference to their income.

That's the view of Adelaide-based financial planner and former public servant Theo Marinis, who is on a mission to raise the awareness of the so-called 54/11 option, unique to members of the Commonwealth Superannuation Scheme.

Post age 55, retiring public servants generally are entitled to a healthy life pension, usually between 40 per cent and 70 per cent of their former pay.

But for proactive pre-retirees it can get much better.

As its name implies, the 54/11 rule applies a different superannuation benefit for members who resign from the public service just before their 55th birthday.

"The option ... simply means advising the employer that you are resigning before your 55th birthday and then preserving the very generous superannuation benefit you are entitled to in the CSS, until age 55," Marinis says.

Other advisers are slightly more circumspect. "It's a fantastic option but you have to be a bit careful," says financial planner Laurie Ebert, who specialises in advising public servants.

"It may not be automatically viable; it all depends on what the calculation brings up"

Ebert cautions that the difference between the standard and the deferred option has to be significant, "or else there's no point".

Sadly for newcomers, the CSS was deemed too generous and was closed for new accounts from July 1, 1990. The CSS was replaced by the less generous Public Sector Superannuation Scheme, which was closed to new members from July 2005.

But there are still considerably more than 20,000 CSS members, generally aged 40 or older.

The 54/11 advantage arises because the formula used by CSS to calculate the deferred pension is different from that used for calculating the standard pension (paid on retirement after age 55).

In essence, the deferred pension formula is based on accumulated contributions and fund earnings, so investment returns will affect the final pension.

The standard (defined) pension is a formula based on the member's final average salary as well as length of service.

As with the deferred arrangement, superannuants must take a standard indexed pension but also have the option to purchase an additional non-indexed pension with their lump sum accumulation account or receive a refund as a lump sum.

According to the CSS website, "neither calculation is always better than the other; it depends on your personal situation, needs and financial goals".

While the standard pension option sounds more attractive, Marinis contends that "9 times out of 10" the 54/11 approach is more beneficial.

In some cases, the early retiree is better off than colleagues slaving away for another five years or more. "In many cases you would have to work into you 60s to get the same pension," he says.

And many public servants don't crave an early exit, for any number of reasons.

Ebert says the subdued market performance since the global financial crisis also has dented account balances.

"Three or four years ago there were some amazing figures being thrown up because of high returns, but the subsequent fall in returns has drastically reduced balances," he says. Of course, nothing is simple when it comes to super, with taxation and social security considerations to take into account.

For instance, a member taking the additional pension option (rather than the lump sum) should bear in mind the payments are non-indexed and thus erode in real value. They are also Centrelink-assessable for future part-age government pension entitlements.

Another variable is whether the 54/11 deferrer (who could be any age under 55) chooses the balanced option or the safer cash option for the preserved sum.

While the latter provides certainty as to the eventual amount on which the pension is drawn, a balanced or growth option offers superior performance over a longer period.

Ebert says he strongly supports the cash option, especially if the member is close to 55: "Most public servants are very conservative anyway."

Marinis urges public servants to seek advice on the available options well before they turn 55.

As for those with a red redundancy target on their forehead, there's some comfort because the 54/11 arrangement is automatically triggered. "Redundancy can be quite distressing, but in fact the 54/11 rules were designed for this situation," Marinis says.

For example, it may be possible to start receiving a pension before age 55, or alternatively opt for a lump sum and forgo any defined benefit pension.

Theo Marinis of Marinis Financial Group is on a mission to raise awareness of the so-called 54/11 option for members of the Commonwealth Superannuation Scheme

As for the 200,000-plus PSS members, they cannot avail of 54/11 but they still enjoy flexibility in terms of pension and lump sum options.

"Clearly, careful planning is also required here to ensure you maximise your net retirement income," Marinis says.

SAMANTHA'S SUPERLATIVE SYMPHONY

FINANCIAL planner Theo Marinis cites the case of a 58-year-old client, "Samantha", who availed herself of the 54/11 option in 2009, after 37 years as a public servant.

On Marinis's advice, she switched her Commonwealth Superannuation Scheme super entirely into the cash option at age 52 in 2006. With the global financial crisis about to hit, that was a fortuitous move.

By tweaking Samantha's pension and lump-sum options, Marinis generated net annual retirement income for her of $53,040, compared with her final-year net salary of $53,488. Samantha pays no personal tax on her fully-indexed pension, which is $13,000 a year more than had she "waited until age 55 and just ticked the box".

Broadly speaking, the mechanics worked like this:

Samantha took the standard defined-benefit indexed pension option, but fully commuted (cashed out) the additional optional non-indexed pension as a 100 per cent lump sum.

In her case this withdrawal was tax-free because her lump sum was less than her low-rate cap amount (the component you are able to withdraw tax-free post age 55 and before age 60).

This was then recontributed as a 100 per cent tax-free, non-concessional contribution of $226,000, used to start an account-based pension.

"Note the tax-free ABP income supplements her taxable CSS indexed pension," Marinis says.

Samantha pays no personal income tax because each year she makes concessional (tax deductible) contributions to super, which offset her fully taxable CSS pension.

Should Samantha need a lump sum, she can always access the $226,000 tax-free.

Had Samantha opted to take the additional defined-benefit pension under the standard rules for those who retire after 55, the amount would have not been indexed and its real value would have eroded over time.

This pension also would have been assessable for the purpose of claiming a future part government age pension.

"There a lot of sub strategies in this financial symphony," Marinis says. "You need a conductor to make sure it all works for you but the outcomes are classical financial music."

It's a fantastic option but you have to be a bit careful'

LAURIE EBERT
FINANCIAL PLANNER

Readers should consult a qualified financial planner.

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Media Release No: 57 **30th May 2014**

Public Servants can Double-Dip after Redundancy

With May's federal budget described as a horror night for Australia's public servants, those who face redundancy may well get the last laugh by being able to 'double dip' under the Public Service Superannuation (PSS) scheme, according to financial strategist and former public servant, Theo Marinis.

"Despite the enormous amount of negative publicity, many of the people affected will, after all the emotion of losing their jobs has passed, be significantly better off financially, provided they get sound financial advice from a qualified planner.

"The fundamental opportunity in the PSS redundancy scheme is the 'Goldilocks Principle' – which allows PSS members to choose to take a lump sum or a pension according to what is 'just right' for them.

"Over the last 20 years I have shown dozens of PSS member clients how under their scheme they can take a lump-sum and choose to pay off their house, go overseas on a holiday and / or make other lifestyle and recreational purchases... draw down the pension they require until they are 65 and still be eligible (effectively double dipping) for significant social security pensions!

"The sad thing for the federal government is that they will lose all this experience from the public service but won't actually save a single dollar – they just delay payment and cause frustration amongst the remaining staff as they see their former colleagues spending well and yet having the same take home pay in their old age as they (the remaining staff) will – meanwhile those remaining workers are under more pressure than ever before.

"After a decade working for the ATO, Centrelink and the Insurance & Superannuation Commission before establishing our financial planning business, I feel very close to the PSS members. In fact my wife ***was*** a PSS member too whilst I ***was*** a CSS member!

"As one former colleague, a PSS member, who saw me recently to discuss what financial impact redundancy would have on her commented, 'It will be like a nuclear winter – the survivors will envy the dead," Theo said.

Attached is the case study of three options available to a real life client and her partner (the names have been changed and the strategies are published with permission) to assist other PSS members to more clearly understand the very real possibilities available to them.

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Estimated Centrelink Assessment at Retirement
Based on 3 PSS Options, Current Balances and Centrelink Rules

Preliminary PSS retirement option Richard and Mary Van Dyke

The following estimates are based on Mary's 30/10/2013 PSS statement and <u>current</u> (11/2013) Centrelink rates and thresholds as a general guide of the VAN DYKE'S retirement position and options.

NOTE: Mary will be 65 in 2016 however she may retire or be offered a Voluntary Redundancy Package prior to that date. Thus Mary expects to retire sometime between July 2015 and her 65th birthday in 2016. The VAN DYKES require $60,000 pa net combined income in retirement.

HOME	**CENTRELINK EXEMPT**
Bank Account (November 2013)	$ 22,800
Mary's Account Based Pension (ABP) 11/2013 (incl AustralianSuper Sal Sac Account)	$ 135,629
Richard's ABP	$ 179,593
Personal Belongings	$ 10,000
Motor Vehicles	$ 20,000
Current Centrelink Assessment	$ 368,022

<u>PSS OPTION 1: 100% PSS Pension = $41,547 pa CSS Pension Nil Lump Sum</u>

Centrelink Asset Test based on assessable assets of $368,022 above results in a reduction of $133.50 per fortnight ($3,471 pa) in combined age pension. With Clean Energy Allowance and Pension supplements the combined pension payment under the Asset test would be approx. $28,946 pa.

Centrelink Income Test (based on *current* ABP rules)

	pa	
Mary's PSS Pension	$ 41,547	(A)
Deemed Income	$ 573	(B)
ABP Mary (Min 5% $6,780 – less Centrelink exempt $5,391)	$ 1,389	(C)
ABP Richard (Nominated $10,776 – less Centrelink exempt $16,815)	NIL	(D)

Total Centrelink Assessed Income (A) + (B) + (C) + (D) = <u>$43,509</u> pa

Combined Age Pensions (and allowances supplements) payable under the Income Test would be approx. $571.95 per fortnight ($14,870 pa). As this assessment produces a lower result, **Age Pensions would be payable under the Income Test.**

Estimated Cash Flow	**pa**
Combined Age Pensions (Income Test)	$ 14,870
Mary's PSS Pension	$ 41,547
Mary's ABP (Min)	$ 6,780
Richard's ABP (Min)	$ 10,776
Deemed bank account income	$ 573
TOTAL GROSS COMBINED	**$ 74,546**

NB: Mary would be partly liable for tax of approx. $5,000 pa (after allowing for her LITO, SAPTO and 10% PSS Tax offset) and would be required to continue lodging tax returns.

Estimated combined NET income: $69,546 pa ($2,675 per fortnight)

This is well in excess of stated annual combined net income needs of $60,000 ($2,308 per fortnight).

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PSS OPTION 2: 100% PSS Lump Sum ($443,743) Nil PSS Pension

Centrelink Asset Test - The PSS Lump Sum benefit (approx. $443,743) is added to other assessable assets (approx. $368,022) increasing their Centrelink Assessable Assets to $811,765. This would result in a combined age pension benefit **reduction** of approx. $20,784 pa ($799 per fortnight).

The combined Age Pension benefit payable would equate to approx. $335.20 per fortnight ($8,715 pa) plus $113.60 per fortnight in allowances and supplements ($2,954 pa)

TOTAL COMBINED AGE PENSIONS (Asset Test): $11,669 pa

Centrelink Income Test (based on *current* ABP rules)

Mary and Richard are NOT currently Income Test affected due to their Centrelink Deductible amounts, and NO Tax will be payable. Further, by nominating 6.4% from Mary's ABP the Van Dykes will achieve their net income needs tax free

Estimated Cash flow	**pa**
Combined Age Pensions (Asset Test)	$ 11,669
Mary's nominated ABP (6.4%)	$ 37,080
Richard's ABP (Min)	$ 10,776
Deemed Bank account income	$ 570
TOTAL GROSS COMBINED	**$ 60,095**

Nil tax is due and NANE ABP / SAPTO / LITO and 10% PSS Tax Offset.

Estimated combined NET Income $60,095 pa ($2,311 per fortnight)

Once again net income is easily achieved.

Mary will no longer need to lodge Tax Returns **BUT** with no PSS pension income they are very reliant on **BOTH** ABPs (NB: there are no estate issues BUT market volatility will prove a concern).

OPTION 3: The 'Goldilocks' Option (50 % PSS Pension / 50% Lump Sum)

PSS retained Pension pa	$ 20,774
PSS Lump Sum	$221,871

Centrelink Asset Test

Under this scenario Richard and Mary's Centrelink Assessable Assets will total $589,893 ($368,022 + PSS Lump sum $221,871) resulting in a combined Age Pension reduction of approx. $12,124 pa; or a **combined age pension benefit of approx $20,291 pa ($780.40 per fortnight)**

Centrelink Income Test (based on *current* ABP rules)

	pa	
Mary's PSS Pension	$20,774	(A)
Deemed Bank account income	$ 570	(B)
ABP Mary (Min 5% $17,875 – less Centrelink exempt $16,536)	$ 1,339	(C)
ABP Richard (Min $10,776 – less Centrelink exempt $16,815)	NIL	(D)

Total Centrelink Assessed Income (A) + (B) + (C) + (D) = $22,683 pa

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As the income test produces a higher result, **age pension income would be payable under the Asset test.**

Estimated Cash flow	**pa**
Combined Age Pensions (Income Test)	$ 20,084
Mary's PSS Pension	$ 20,774
Mary's ABP (Min)	$ 17,875
Richard's ABP (Min)	$ 10,776
Deemed bank account income	$ 570
TOTAL GROSS COMBINED	**$ 70,079**

Nil Tax due to NANE ABP / SAPTO / LITO and PSS 10% Tax Offset

Estimated combined NET Income $70,079 pa ($2,695 per fortnight)

CONCLUSION

Whichever option is chosen, Mary and Richard will achieve their income needs.

For balance and diversity, I believe that **Option 3** with the 50/50 Lump Sum vs Pension strategy provides the optimal solution.

Option 1 provides less cash flow, less accessible lump sums, less income stream diversification and will require Mary to always lodge returns. This in my view is the poorest option. Finally, if Richard survives Mary, his remaining 'Reversionary' PSS pension will drop by approximately $13,710 pa!

Option 2 provides great capital (eg: which may be ultimately payable to the estate) but with too much market exposure.

Option 3 results in **$40,858 pa** or 58% of cash flow provided via Age Pension and PSS Pension benefits. This option produces the most favourable outcome for Mary and Richard, providing significantly **more income** than their net cash flow needs. In addition they will have access to significant capital (approx. $537,293) via their respective Account Based Pension funds. By drawing the minimum Account Based Pension income, plus a combination of part Age Pension and part PSS Pension income, Mary and Richard have achieved significant income stream diversification and taxable income low enough (despite excellent gross cash flow) not to pay tax, or need to lodge a tax return ever again!

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Media Release No: 62 **4th March 2016**

An example of creating a 'Financial Magic Pudding'!

Unlike many of their fellow retirees, *Tim and Jane do not worry about buying a cup of coffee, the cost of going out for a meal, or how much petrol costs. They are long-term clients of Marinis Financial Group and financially stress-free!

Tim noted recently that their retirement fund balances are about the same today as when he left work, and yet he and Jane have drawn down hundreds of thousands of dollars to live on since his retirement approximately 15 years ago.

When Tim 'took a package' and retired from his government role, his gross income was around $50,000p.a. Today, 15 years later and in his mid-70s, Tim takes home the equivalent of twice that amount, thanks to some good financial planning advice.

Like so many mums, Jane contributed financially to the family with a part-time job when the children were sufficiently grown up. Nevertheless she had very little in the way of super, despite full time work in a bank for 10 years as a young woman – consequently work from which she was forced to resign (due to the employer policies of the day) following her marriage to Tim.

Jane was aware of the challenges of finding the right adviser, thanks to the influence of her uncle who was a life insurance agent. She also knew John Thompson, a financial adviser who had worked in the same building. It was then that Jane and Tim started informally discussing retirement with John which was five years or so before Tim was 60.

Over time, John introduced Tim and Jane to his successor, Theo Marinis, who provided them with a retirement strategy which would see Tim withdraw (or commute) 55% of his Defined Benefit Super payout as a lump-sum to invest, and take the remaining benefit as a pension. They were initially reluctant to embark on this strategy, which was contrary to the advice provided by the Financial Information Services (FIS) officer employed by Centrelink to provide retirement funding advice.

As is his practice with all of his Defined Benefit Super clients, Theo explained to Tim and Jane that whilst the prevailing paradigm (or urban myth) is NOT to cash out and commute a Defined Benefit pension, this advice is not usually in their best interests. This is because:

- Inflation and tax will effectively 'eat' your benefits if you choose the100% Defined Benefit pension path, and
- Locking in 100% in one investment source is proven to be a flawed strategy - it totally ignores the first rule of investing – **always diversify**.

Most Defined Benefit pensions are indexed, i.e. increasing with the Consumer Price Index (CPI) rather than with Average Weekly Ordinary Time Earnings (AWOTE). Some Defined Benefit pensions, however, are only partially indexed, or in some cases, NOT indexed at all!

Thus the purchasing power of Defined Benefit pensions diminishes in the long term, and this is why the federal government in 2014 tried to change the rate of indexation on Age Pensions from AWOTE to CPI, as a measure to reduce spending over time. Due to the large community push back on this proposal, however, they backtracked and did NOT proceed with this budget proposal.

While it seems intuitive to many people to opt for the 'safe' government backed pension option, most people forget that around 70% - 80% of the income received during retirement from a superannuation lump sum is from the earnings on the original lump sum.

Theo uses the analogy that your super is like a tree and in retirement you live off its fruit – in other words, the earnings.

He also provides the following additional reasons why the 100% Defined Benefit pension option can often be the wrong choice:

- On the death of the pensioner, Defined Benefit pensions usually only provide 2/3 of the original pension to a surviving partner, bringing a significant drop in income, in addition to the grief associated with losing a spouse.
- On the death of both partners there is no money left for children or the estate;
- Defined Benefit pensions do not allow access to lump sums to upgrade cars, pay for holidays, to help your children and / or grandchildren, or for emergencies.

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- Locking in to a 100% Defined Benefit pension affords no flexibility if or when future governments change rules around super and pensions. (Unfortunately, we are already seeing this happening in Australia, and overseas in Greece, as experienced by Theo's cousins who recently suffered a 40% pension cut at the stroke of a government pen)!

Accepting Theo's recommendations have effectively provided Tim and Jane with a 'magic pudding' of retirement funding, the position in which everyone wants to be. It enables them to live comfortably, without anxiety about lifestyle or discretionary spending decisions, with the knowledge that they still retain excellent capital reserves.

It has allowed them to enjoy Pacific and European river cruises, to travel around Australia and holiday in the UK. If they wish, they can choose to replace their car every 5 – 6 years, and they are able see plenty of their grandchildren. In fact, they could actually give themselves a 'pay-rise', without greatly affecting their retirement balance.

As a result of their investment strategy (which remains conservative) Tim and Jane have averaged around 7.5% p.a. return on their investment lump sum. Had they **not** commuted 55% of Tim's Defined Benefit pension, Tim and Jane's super would have only increased by a CPI factor of around 3.0% p.a.

In addition, if they had simply kept 100% of Tim's employer based Defined Benefit pension, that pension would have expired on the death of the last surviving partner. Now, much to their surprise, Tim and Jane will actually have a significant sum to pass to their estate – unless they get even more serious about their travel hobby!

Today the income flow to their bank account is made up of three elements:

- Investment income / drawings from the account based pensions purchased with Tim's 55% super lump-sum
- Tim's Defined Benefit pension (45% of the Government pension benefit retained)
- Part Centrelink Age Pension

Their income is NOT taxable – despite having an annual income equivalent to $100,000, Tim and Jane are no longer required to complete tax returns!

Jane says a lot of her retired friends constantly worry about their finances, and many ask "why would you pay a financial adviser all that money?" However, they feel very comfortable with the trust they have built up with Theo and the rest of the Marinis team. Tim says he never stays awake at night worrying about their finances. He points out that when the children were young he was doing three jobs; he designed his own house, concreted the paths and sanded the floors himself to save money, and Jane used to wonder how they were going to be able to afford food after paying all the bills.

Now, thanks to some great financial planning advice, Tim and Jane don't need to worry about their income.

**** Tim and Jane are not their real names (their names and details are protected for their privacy) but they are real clients of Marinis Financial Group. We thank them very warmly for sharing their story so that others may better understand financial planning.***

PLEASE REFER TO THE TABLES ON THE FOLLOWING PAGES WHICH OUTLINE ALL RESPECTIVE FIGURES.

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Disclaimer

The information in this article reflects Theo Marinis' understanding of existing legislation, proposed legislation, rulings etc. as at the date of issue. While it is believed the information is accurate and reliable, this is not guaranteed in any way. The information is not, nor is it intended to be comprehensive or a substitute for professional advice on specific circumstances.

The information given in this article is of a general nature and has not taken into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision on the basis of the advice above, a prospective investor needs to consider, with or without the assistance of a professional adviser whether the advice is appropriate in the light of their particular investment needs, objectives and financial circumstances.

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TIM AND JANE CURRENT POSITION AT REVIEW NOVEMBER 2015		
Tim's 45% retained Super SA Pension	$23,738	
Tim's Part Centrelink Age Pension	$10,810	Per Centrelink report 04/11/2015
Jane's Part Centrelink Age Pension	$10,810	Per Centrelink report 04/11/2015
Jane's Minimum Account Based Pension (ABP)	$ 6,230	**Tax Exempt**
Jane's Term Allocated Pension (TAP)	$18,200	**Tax Exempt**
Bank Interest - Combined	$ 1,640	
TOTAL GROSS COMBINED	**$71,428**	$1,373.62 per week
Despite this excellent combined Gross income neither Tim nor Jane are taxable, due to their individual TAXABLE income/s as outlined below		
JANE'S TAXABLE INCOME		
Part Centrelink Age Pension	$10,810	
Bank Interest - Half Share	$ 820	
TOTAL - JANE **(Excluding Tax Exempt ABP and TAP income)**	**$11,630**	**Jane is NOT taxable due to the SAPTO threshold**
TIM'S TAXABLE INCOME		
Super SA Pension	$23,738	
Part Centrelink Age Pension	$10,810	
Bank Interest - Half Share	$ 820	
TOTAL - TIM	**$35,368**	**Tim is NOT taxable due to the SAPTO threshold and his Super SA pension tax offset**
Combined Net Income	**$71,428**	
Combined Age Pension	$21,620	
Combined Tax Payable	**Nil**	
Accessible ABP	$125,358	4/11/2015
TAP Payable to Estate	**$238,223**	**4/11/2015**

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TIM AND JANE CURRENT POSITION with NO LUMP SUM COMMUTATION		
Tim's 100% retained Super SA Pension	$52,751	
Tim's Part Centrelink Age Pension	$ 5,481	Per Calculations as follows
Jane's Part Centrelink Age Pension	$ 5,481	Per Calculations as follows
Jane's Minimum Account Based Pension (ABP)	$ 6,230	
Jane's Term Allocated Pension (TAP)	Nil	**No TAP as NO Lump Sum Commutation**
Bank Interest - Combined	$ 1,640	
TOTAL GROSS COMBINED	**$71,583**	$1,376.60 per week
JANE'S TAXABLE INCOME		
Jane's Part Centrelink Age Pension	$ 5,481	
Bank Interest - Half Share	$ 820	
TOTAL - JANE **(Excluding Tax Exempt ABP income)**	**$6,301**	**Jane is NOT taxable due to the SAPTO threshold**
TIM'S TAXABLE INCOME		
Tim's 100% retained Super SA Pension	$52,751	
Tim's Part Centrelink Age Pension	$ 5,481	
Bank Interest - Half Share	$ 820	
TOTAL - TIM	**$59,052**	**Tim's net Tax Payable is $4,768 pa**
Combined Net Income	**$66,815**	
Combined Age Pension	$10,962	
Combined Tax Payable	**$ 4,768**	
Accessible ABP	$125,358	4/11/2015
TAP Payable to Estate	**Nil**	4/11/2015

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Dethroning defined benefit pensions

Once the crown of the pension throne, defined benefit schemes face a very uncertain future.

Summary: The Federal Government's new $1.6 million transfer balance cap will ultimately kill defined benefit pension schemes. The Government will value these pensions 'lump sum equivalent' at $1.6m and tax income in excess of $100,000 per annum.

Key take-out: Defined benefit fund members expecting a retirement pension greater than $100,000 per annum will be hit hard under new super laws. Investors should rethink the urban myth of never partially or entirely 'cashing in' a defined benefit pension, with examples shown below.

Key beneficiaries: Superannuants, retirees. **Category:** Superannuation, retirement.

The long-time star of the pension series – the defined benefit fund – may have effectively been killed off by the Federal Government.

Under the new $1.6 million transfer balance cap rules taking effect from July 1, 2017, pension income from defined benefit funds will be valued using a multiple of 16.

Those expecting a retirement pension greater than $100,000 per annum will be hit hard under these new laws, including senior public servants and academics. The Government will value their pension 'lump sum equivalent' at $1.6m and tax their income exceeding $100,000 pa.

Defined benefit scheme members who have not have cashed out at least part of their pension (to free up their options) are locked in, as the following case study demonstrates:

- Sue is 67 during the 2017-18 financial year and receives a defined benefit life expectancy pension which commenced before July 1, 2017.
- Her pension qualifies as a 'capped defined benefit income stream' and is comprised of a 'tax-free' component and a 'taxed' element.

- For the 2016-17 financial year, Sue's pension is non-assessable, non-exempt income.
- In 2017-18, however, as Sue receives $150,000 from her pension, the sum of the benefits comprising the tax-free component and taxed element will exceed her $100,000 'defined benefit income cap'.
- Sue must therefore, include in her 2017-18 financial year assessable income, 50 per cent ($25,000) of the defined benefit income that exceeds her defined benefit income cap.
- She is not entitled to a tax offset in relation to this income. Sue needs to declare this income by lodging an individual income tax return, and as a result, may have an income tax liability.
- Conversely, had Sue's benefit originated from a 100 per cent 'untaxed' pension fund (as is the case with Super SA pensions) the 10 per cent untaxed defined benefit pension offset would be capped at a maximum of $10,000.

In Sue's scenario above, assuming her $150,000 pension was all 'untaxed component', the loss of the tax offset over $10,000 will result in her pension income being fully taxable and the income above $100,000 pa taxed at the full 39 per cent marginal tax rate. That equates to approximately $36,131 in net tax on the $150,000 untaxed pension income, for a still comfortable net result of around $113,869.

Reminder of the golden investing rule

The new transfer balance cap rules are the final nail in the coffin for defined benefit pension schemes, most of which are now closed to new members and have been for several years. There is perhaps no future for defined benefit income streams either, which have also been declining over time. These overly generous schemes have caused funding problems and trustees in conscience will struggle to keep accepting new members.

Furthermore, the defined benefit income cap may force members of these schemes to rethink the urban myth that a defined benefit pension should never be 'cashed in' partially or entirely.

Not cashing in part of a defined benefit pension breaches a core tenant of investing: always diversify. Retaining 100 per cent of a defined benefit pension is equal to having all your eggs in one basket.

Opportunities outside the 'defined' area

The $1.6m super cap will affect a lot more people than initially understood. However, there are still significant wealth-generating opportunities left to those in the current system not locked into a defined benefit fund.

As the $1.6m cap applies to each partner in a relationship, the opportunity here is creating a $3.2m super fund. If one partner has over $1.6m in accumulated benefits and the other has less, transferring up to the elevated cap should be the first item on the checklist. The return on the family's $3.2m could approximate a tax-free $240,000 pa, without eating into capital.

Bear in mind as well, any excess over the $1.6m cap can still be rolled back into superannuation accumulation phase with investment income attracting a 'concessionally' taxed rate of 15 per cent pa.

With effective planning, however, this concessional tax rate can be further minimised. Consider this example, and compare it to our friend Sue above:

- A single person over 60 at July 1, 2017 with $2m in an account-based pension withdraws $400,000 (the excess over the $1.6m cap) to achieve taxable income of $30,000 pa (assuming a notional investment income of 7.5 per cent pa on $400,000).
- The retained $1.6m account-based pension income remains tax exempt and the (non-super) investment income of $30,000 is now the only taxable income.
- As the level of taxable income is below the current single person senior Australian pensioner tax offset threshold of $32,279 pa, there is no personal tax liability and no tax return to lodge, unlike in Sue's case. With annual income of around $150,000 post-July 1, this is clearly an excellent outcome.
- However, perhaps the simplest capital gains tax-free option to deal with retirement funds over $1.6m is to upgrade the family home. Australian homes have historically increased in value at a generous rate of 7.5 per cent pa, having the potential to increase the value of your estate and keep the tax-man from the door.
- Another strategy might be to gift the excess as an early inheritance – but be aware of the complex Centrelink rules around gifts over $10,000.

The new super rules are very complex and require considerable administration. Successive governments have made it almost impossible to successfully navigate the super/tax/Centrelink interface without the help of a qualified financial planner.

Theo Marinis

Media Release No: 72 **9 October 2017**

Can it get any better?

It could be argued that the subject of this media release has taken an adult lifetime to develop; it involves someone I have known since I left school and who is now a senior academic.

As a result of my advice to commute a significant portion of her UniSuper Defined Benefit Pension some years ago, my client will be one of the very few senior academics not to be hit with unexpected additional tax arising from the new Transfer Balance Cap rules (applying to pension benefits over $1.6M or pension income in excess of $100,000 pa) which came into effect as part of super rule changes on 1 July, 2017.

Over time, acting on my recommendations, she implemented a Transition to Retirement strategy, maximised salary sacrifice super contributions (up to $100,000 pa when this was still possible) and split her super lump-sum funds between herself and her husband.

They currently have Account Based Pension (ABP) balances of approximately $1 million and $1.3 million respectively, each with tax free components of 100%.

After the part commutation of her UniSuper Defined Benefit Pension, my client retained a small pension of $20,000 pa. This pension has a Transfer Balance Cap value of $320,000, which, combined with her current ABP of approximately $1 million is below the $1.6m cap, with no additional taxation issues.

As her husband has no other income stream he is similarly unaffected by the Transfer Balance Cap rules.

Based on a UniSuper DB pension of $20,000 pa, plus minimum ABP income payments of $50,000 and $65,000 respectively, my client and her partner currently enjoy minimum tax free annual income of $135,000 from their superannuation – placing them comfortably in the top 4% of retirees in the country in terms of income.

But, as they say in the ads: 'Wait, there's more!"

The couple also have a direct share portfolio and a geared rental property. As they are both now over age pension age, however, they pay no personal tax as their combined ***taxable income*** is less than the $57,948 combined Seniors and Pensioners Tax Offset (SAPTO) threshold.

Any Account Based Pension income growth (over and above their ***TAX EXEMPT*** minimum pension payments) is also tax-free, as their ABPs have 100% tax free components. This also means that their children and grandchildren will inherit tax-free, or they can 'SKI' (Spend the Kids Inheritance) by taking more tax exempt ABP pension income and lump sums, as required.

In addition, my client continues to consult, earning approximately $75,000 pa. On my advice, she continues to salary sacrifice into super the maximum possible each year ($25,000 pa from 1 July 2017).

As a result of structuring their affairs over the last decade and a half, the family paid virtually no personal tax# on annual income of almost $274,000^ pa generated in 2016/17 – which takes them into the top 1% of income earners in retirement in Australia.

#Approximately $5,250 was paid by the super fund on $35,000 salary sacrificed to super. NIL Tax was paid on the tax exempt ABP and Retained UniSuper pensions. Thus, the taxable income of each member of this couple was less than $28,974 (due to negative gearing losses on a rental property).

^ Including estimated tax-free capital growth within the pension funds i.e. $2.3 Million at 7% pa less 5% pa (or $46,000) taken as ABP income. (This NET of ALL ongoing fees including our annual advice fee, super fund admin fee and investment management fee).

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Media Release No: 73 **9 October 2017**

Public servants can define their own retirement benefits by building in flexibility

Every year thousands of Australian public servants are retiring, with most blindly following the 'water cooler talk' into comparative retirement poverty.

From my view as a former public servant, many are too constrained by their innate conservatism to look at the reality of the medium to long term returns the financial markets can provide. Like lemmings, most put their hands up for maximum defined benefit pensions.

But not all. Life partners Damian and Dave had slightly different retirement plans. This is their true story (with names changed to protect their privacy). It demonstrates clearly how public servants have far more flexibility in their retirement than most realise!

Damian and Dave were both senior public servants. Damian was a member of the Commonwealth Superannuation Scheme (CSS) and Dave a Super SA member.

Damian decided to retire in July 2010. Following considerable planning and many lengthy discussions (between Damien, Dave and myself) Damian implemented a '54/11' CSS pension strategy. He retained a gross annual (Standard) CSS pension of $47,398, having also taken a commutation of the maximum possible CSS lump sum.

Dave was still a senior state government public servant, and wanted to work for a few more years, although they both intended to take annual overseas holidays. His gross Super SA Lump Sum fund balance in 2010/11 was just under $900,000 (inclusive of Damian's Super SA spouse account established on my advice, to receive transfers from David).

The recommended strategies delivered the following interim outcome:

Damian immediately saved almost $6,000 pa in personal tax, due to an annual personal super Concessional Contribution to offset income from his taxable CSS pension. This tax saving was:

a) over and above a gross Account Based Pension (ABP) annual income of $16,360 from his re-invested, retained CSS/AGEST lump-sum.
b) after payment of ALL debts (using part of his super lump sums) and;
c) in addition to his retained 2010/11 gross annual CSS Defined Benefit Pension of $47,398.

On my recommendation, Damian also implemented a 'cash out and re-contribution' strategy which resulted in his ABP income being 100% tax exempt.

Having been a public servant for quite some time, Dave would now no longer risk exceeding the untaxed cap available under his State Government super fund ($1,150,000 in 2010/11). He acted on my advice to 'contribution split' each year to a Super SA spouse account established for Damian.

In 2010/11 Damian and Dave had a combined annual NET income of approximately $65,000 pa, comfortably higher than their stated need of $60,000, despite each of them making substantial additional super contributions. If required, they also had the ability to tax effectively increase their income, simply by increasing Damian's Tax-Exempt ABP income drawdown.

But that is far from the end of their story...

With planning and careful restructuring, Damian and Dave were able to optimise their superannuation savings for their retirement, and later will be able to leave a significant legacy for Dave's children and grand-children.

Due to the 'Constitutionally Protected' status of Dave's state government Southern State Super (SSS) fund (which means that it is not subject to Concessional Contribution limits and remains largely unaffected the 1 July 2017 super changes) he was able to salary sacrifice approximately $92,000 pa – increasing this figure to more than $113,000 pa in his final year of employment.

This salary sacrifice strategy had the effect of boosting their combined super balances (despite Damian's Account Based Pension drawdown) and an initial annual reduction of approximately $31,000 to Dave's annual personal tax bill – with these savings redirected to his super fund.

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Media Release No: 73 9 October 2017

Public servants can define their own retirement benefits by building in flexibility

With Dave joining his partner in retirement in September 2016, we have now implemented the second part of their strategy.

Damian's retained CSS basic pension has increased to $51,655 pa. As this Standard CSS pension is fully indexed, and as Damian is now over age 60, he is eligible for a 10% CSS Tax Offset. This equates to an increase of $5,166 in his NET annual CSS pension income.

Damian continues to make annual Concessional Contributions to super to eliminate his personal tax and continue to grow his super balances. As a result, he pays NO personal tax. He does pay approximately $1,500 pa in tax via his super fund on his annual (approximately $10,000 pa) tax-deductible Concessional Contributions, and he still pays an annual Medicare Levy of approximately $833. This is a result of $2,333 in contributions tax and Medicare levy on Damian's taxable CSS pension of $51,655 pa for net annual CSS income of $49,322.

As at September 2017 both Damian and Dave are now both over 60 years of age, retired and have between them $1,981,000 NET in tax free Account Based Pensions.

The recommended annual 'contribution split' to Damian's Super SA SSS Spouse account all those years ago, meant that Dave did not risk exceeding the 2016/17 Untaxed Plan Cap Threshold of $1,415,000. When combined, however, their gross Super SA Untaxed balances were well in excess of this threshold.

This strategy alone saved Dave a once off lump sum "penalty" tax of approximately $167,530.

Importantly, due to the flexibility of the recommended strategies, neither Damian nor Dave is affected by the retrospective $1.6M cap on tax exempt ABPs, introduced from 1 July 2017.

Based on their current account balances, their combined account based pensions are required by legislation to pay a minimum annual income of $79,263. This provides Damian and Dave with a combined annual net retirement income of around $120,000 pa (inclusive of Damian's NET CSS pension income and net of his annual Concessional Contributions to super) and well in excess of their stated $100,000 annual net income objective. This amount also allows for their annual overseas holidays!

They can draw as much additional tax free ABP income or lumps sums as required, and Damian and Dave intend to assist Dave's children to purchase their own homes by accessing funds in this way.

This 'actual' client case study demonstrates how, with good advice (and despite government meddling in the super system) EXCELLENT financial outcomes can and are still being achieved!

Damian & Dave's 2010/2011 financial position

Super & Account Based Pension Balances	
Damian's (100% Tax Free) ABP	$166,000
Damian's NET Super SA Spouse Account	$144,500
Dave's NET Super SA Lump Sum and SSS Accounts	$ 735,013
Total Net Super & ABP	**$1,045,513**
Annual income	
Damian's gross CSS Pension	$47,398
Less Personal CC to super	-$25,000
Damian's 100% Tax Exempt ABP	$16,360
Dave's gross salary	$121,848
Less Salary Sacrifice to Super SA SSS	-$91,848
Less Personal Tax (Damian)	-$1,134
Less Personal Tax (Dave)	-$2,456
Total combined net income	**$65,168**

Notes:

— NET Super SA balances are based on GROSS balances less 15% super fund tax accrued on "Untaxed Components" of Super SA accounts due on rollover.

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Public servants can define their own retirement benefits by building in flexibility

Their October 2016 (Personal Review) Financial Position

Super & Account Based Pension Balances	
Damian's (100% Tax Free Comp) NET ABP	$480,000
Dave's (100% Tax Free Comp) NET ABP	$470,000
Dave's (Taxable Component) NET ABP	$1,031,564
Total Net ABP Balances	**$1,981,564**
Annual income	
Damian's gross CSS Pension	$51,655
Damian's (100% Tax Free Component) ABP	$19,200
Dave's (100% Tax Free Component) ABP	$18,800
Dave's (Taxable Component) ABP	$41,263
Less Damian's Personal Concessional Contribution to super	-$10,000
Less Personal Tax/Medicare Levy (Damian)	-$833
Total combined net income	**$120,085**

Notes:

— ABP income is now 100% tax exempt (regardless of the underlying tax components) as both Damian & Dave are over age 60.
— ABP income is based on the minimum rate of 4.0% pa applicable to pension recipients aged between 60 – 65.
— Total Combined NET income is NET of Damian's annual personal Concessional Contribution to super.

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Retiring from the public service

A case study on how to maximise superannuation results.

Summary: Public servants can define their own retirement benefits by building in flexibility, maximising contributions, and using strategies such as contributions splitting.

Key take-out: Getting good financial advice early is imperative. Waiting until nearer to retirement would not have achieved the desired outcomes in this case study.

Thousands of Australian public servants retire every year, with most blindly following the 'water cooler talk' into comparative retirement poverty.

From my view as a former public servant, many are too constrained by their innate conservatism to look at the reality of the medium to long-term returns the financial markets can provide. Most put their hands up for maximum defined benefit pensions.

But not all. Partners Damian and Dave had slightly different retirement plans. This is their true story (with names changed to protect their privacy). It demonstrates clearly how public servants have far more flexibility in their retirement than most realise.

Damian and Dave were both senior public servants. Damian was a member of the Commonwealth Superannuation Scheme (CSS) and Dave a Super SA member.

Damian decided to retire in July 2010. Following considerable planning and many lengthy discussions (between Damien, Dave and myself) Damian implemented a '54/11' CSS pension strategy. He retained a gross annual (Standard) CSS pension of $47,398, having also taken a commutation of the maximum possible CSS lump sum.

Dave was still a senior state government public servant, and wanted to work for a few more years, although they both intended to take annual overseas holidays. His gross Super SA Lump Sum fund balance in 2010-11 was just under $900,000 (inclusive of Damian's Super SA spouse account, which was established to receive transfers from Dave).

Interim outcomes achieved

Damian immediately saved almost $6,000 pa in personal tax, due to an annual personal super concessional contribution to offset income from his taxable CSS pension. This tax saving was:

- over and above a gross account-based pension (ABP) annual income of $16,360 from his re-invested, retained CSS/*Australian Government Employees Superannuation Trust* lump-sum.
- after payment of all debts (using part of his super lump sums) and;
- in addition to his retained 2010-11 gross annual CSS Defined Benefit Pension of $47,398.

Damian also implemented a 'cash out and re-contribution' strategy, which resulted in his ABP income being 100 per cent tax exempt.

Having been a public servant for quite some time, Dave would now no longer risk exceeding the untaxed cap available under his state government super fund ($1,150,000 in 2010-11). He then proceeded to 'contribution split' each year to a Super SA spouse account established for Damian.

In 2010-11 Damian and Dave had a combined annual net income of approximately $65,000 per annum. This was comfortably higher than their stated need of $60,000, despite each of them making substantial additional super contributions. If required, they also had the ability to tax effectively increase their income, simply by increasing Damian's tax-exempt ABP income drawdown.

2010-2011 financial position

Super & Account Based Pension Balances	
Damian's (100% Tax Free) ABP	$166,000
Damian's NET Super SA Spouse Account	$144,500
Dave's NET Super SA Lump Sum and SSS Accounts	$ 735,013
Total Gross Super & ABP	**$1,045,513**
Annual income	
Damian's gross CSS Pension	$47,398
Less Personal CC to super	-$25,000
Damian's 100% Tax Exempt ABP	$16,360

Dave's gross salary	$121,848
Less Salary Sacrifice to Super SA SSS	-$91,848
Less Personal Tax (Damian)	-$1,134
Less Personal Tax (Dave)	-$2,456
Total combined net income	$65,168

Notes:

- Net Super SA balances are based on gross balances less 15 per cent super fund tax accrued on "untaxed components" of Super SA accounts due on rollover.

Maximising salary sacrifices

Damian and Dave were able to optimise their superannuation savings for their retirement, creating a significant legacy for Dave's children and grandchildren.

Due to the 'constitutionally protected' status of Dave's state government Southern State Super (SSS) fund (which means that it is not subject to concessional contribution limits and remains largely unaffected by the July 1, 2017 super changes) he was able to salary sacrifice approximately $92,000 per annum – increasing this figure to more than $113,000 in his final year of employment.

This salary sacrifice strategy had the effect of boosting their combined super balances (despite Damian's APB drawdown) and an initial annual reduction of approximately $31,000 to Dave's annual personal tax bill – with these savings redirected to his super fund.

Final outcomes achieved

Damian's retained CSS basic pension has increased to $51,655 pa. As this standard CSS pension is fully indexed, and as Damian is now over age 60, he is eligible for a 10 per cent CSS tax offset. This equates to an increase of $5,166 in his net annual CSS pension income.

Damian continues to make annual concessional contributions to super to eliminate his personal tax and to grow his super balances. As a result, he pays no personal tax. He does pay approximately $1,500 pa in tax via his super fund on his annual (approximately $10,000 pa) tax-deductible concessional contributions, and he still pays an annual Medicare Levy of approximately $833. This is a result of $2,333 in contributions tax and Medicare Levy on Damian's taxable CSS pension of $51,655 pa for net annual CSS income of $49,322.

As at September 2017, Damian and Dave are now both over 60 years of age, retired and have between them $1,981,000 net in tax-free account-based pensions.

The recommended annual 'contribution split' to Damian's Super SA SSS spouse account meant that Dave did not risk exceeding the 2016-17 Untaxed Plan Cap Threshold of $1,415,000. When combined, however, their gross Super SA untaxed balances were well in excess of this threshold.

This strategy alone saved Dave a once-off lump sum "penalty" tax of approximately $167,530.

October 2016 financial position

Super & Account Based Pension Balances	
Damian's (100% Tax Free Comp) NET ABP	$480,000
Dave's (100% Tax Free Comp) NET ABP	$470,000
Dave's (Taxable Component) NET ABP	$1,031,564
Total Net ABP Balances	$1,981,564
Annual income	
Damian's gross CSS Pension	$51,655
Damian's (100% Tax Free Component) ABP	$19,200
Dave's (100% Tax Free Component) ABP	$18,800
Dave's (Taxable Component) ABP	$41,263

Less Damian's Personal Concessional Contribution to super	-$10,000
Less Personal Tax/Medicare Levy (Damian)	-$833
Total combined net income	**$120,085**

Notes:

- ABP income is now 100 per cent tax exempt (regardless of the underlying tax components), as both Damian and Dave are over age 60.
- ABP income is based on the minimum rate of 4 per cent pa applicable to pension recipients aged 60-65.
- Total combined net income is net of Damian's annual personal concessional contributions to super.

A very comfortable retirement income

Due to the flexibility of the recommended strategies, neither Damian nor Dave is affected by the retrospective $1.6 million cap on tax-exempt ABPs, introduced from July 1, 2017.

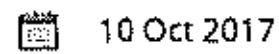
Based on their current account balances, their combined account-based pensions are required by legislation to pay a minimum annual income of $79,263.

This provides Damian and Dave with a combined annual net retirement income of around $120,000 pa (inclusive of Damian's net CSS pension income and net of his annual concessional contributions to super) and well in excess of their stated $100,000 annual net income objective.

They can draw as much additional tax free ABP income or lumps sums as required, and Damian and Dave intend to assist Dave's children to purchase their own homes by accessing funds in this way.

This 'actual' client case study demonstrates how, with good advice (and despite government meddling in the super system) excellent financial outcomes can and are still being achieved.

Theo Marinis



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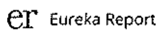

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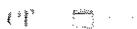
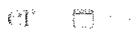
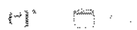


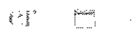
Is property a safe bet for SMSFs?



Telstra, CBA and the changing times



The Economic View: A diverging strain



Upcoming Events

Advisor Q&A: Is Property a Safe Bet for SMSFs?

Thu 12 Oct 2017 (1:00 PM AEDT)