

Grow @ Marinis Group

From: grow@marinigroup.com.au
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To: Alex Wiedenmann | Marinis Group
Subject: So, where does the value in financial planning come from?
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October eGrow

Dear Friends,

[So, where does the value in financial planning come from?](#)

Interestingly, this question has never been put to me by anyone other than myself - and I ask it at least once a week.

One of the more positive outcomes of the Royal Commission, the Productivity Commission and the regular SPIVA reports is the spotlight which has been shone on the wider retirement industry. As a result, the usual competitive market forces which drive efficiency in our markets have been unleashed. For example, both BT and AMP have recently dropped their super administration costs by around 40%, and that's a great start.

There are several facets to the long-term savings industry, not the least of which is the administration and management of those savings. It is within this component that companies like BT and AMP have reduced their costs.

Over the last decade of course, most Marinis Financial Group clients have already been paying those sorts of fees, or lower, for years!

When long standing clients recently asked if their SMSF could take advantage of the reduced BT Panorama SMSF administration fee, we were delighted to advise that he and his wife were ALREADY paying lower fees, due to our ability to pass on the very significant savings made possible by maintaining our Australian Financial Services Licence (AFSL). As mentioned in my September eGrow, since 2008, our AFSL has afforded us the flexibility to find the best fee solutions with full transparency, cost effectiveness and efficiency for our clients.

Managing superannuation is, of course, much more complex than managing a simple bank account, even though the parallel is often used. In the background, the money we contribute is used to buy listed and direct investments across ALL asset classes; dividends and interest income is earned and assets are often sold.

This means there are enormous systems tracking the trades and distributions, making sure that you, as the beneficiary, will receive your money at retirement. There are layers of checks and balances, such as trustees, custodians and auditors, all charged with the role of protecting your investments.

Whilst providing these services comes at a cost, it is clear that the profits generated through some administration providers have been excessive.

As I wrote recently, we have effectively negotiated 'staff rates' for our clients, which means there have been very significant savings over the last decade. I expect that these savings will continue to grow over time, with greater competition and automation.

The real value in financial planning, however, is not selecting the best and most cost-effective administration platform and investment solutions (despite the obvious benefits of cost saving this brings).

The real value of financial planning lies with the strategies which apply to the unique circumstances of each individual.

Since the introduction of superannuation, successive governments have tinkered with the structure. Some initiatives have been good, and many poor. In fact, I sometimes think that the bureaucrats who advise our politicians have lost sight of the fact that the purpose of retirement savings is to 'fund retirement' and to allow us to achieve a level of financial dignity in the 'grandma and grandpa' phase.

To their shame, the politicians and the bureaucrats have allowed a retirement system to evolve so that it is too intricate for the average Australian to negotiate without help. A significant part of this 'web' is the interface with social security

and taxation - understanding how the super rules apply, understanding what the ATO rules require, and understanding the Centrelink opportunities.

There are many really dumb anomalies in the system - such as (to name one) the 17% tax on 'left-over' super 'Death Benefit Tax', which (with good planning) is entirely optional. In addition, if their affairs are structured correctly and professionally, most people should have to pay almost no tax in retirement.

This is where the value of good financial planning really becomes apparent. To get the most out of the system, clear, robust legal strategies are essential. It is in the development and implementation of those strategies, which enable clients to maximise their personal opportunities.

To highlight this point I have attached to this edition of eGrow, the case study of Samantha. If you read this Media Release, you will get a sense of just how complex retirement can be – and how often people walk away from money which is rightfully theirs, simply because they didn't fully understand the rules. Without intervention, Samantha (a very well-informed retiree) stood to lose almost 10% of her NET annual income by being unaware of the tax laws which applied to her situation. As the saying goes, "we don't know what we don't know". Samantha is an actual client (name changed for privacy protection) and the articles appear with her full approval.

To use a popular analogy, the role of a professional financial planner is not dissimilar to the role of the medical doctor. We train to diagnose the underlying issues, not just the symptoms, and to recognise the most efficient – and scientifically valid – approach to financial health.

Naturally, the patient can always choose self-treatment, or an alternative practitioner, but I would always prefer to go with someone with a proven track record.

Unlocking the web of rules and regulations is my particular skill. It is a skill underpinned by appropriate qualifications in economics, financial planning and accounting, and the invaluable experience gained through working with the ATO, Centrelink and the Insurance and Superannuation Commission (ISC) before starting this business over two decades ago.

The real value of financial planning is clearly in the strategy.

One more thing.

Please see my latest comments in the Eureka/InvestSMART articles attached. If you would like to see my other media commentary, please visit our website www.marinigroup.com.au.

As always, if I or any of our team can be of assistance, please do not hesitate to call us on (08) 8130 5130.

Kind Regards,

Theo Marinis B.A., B.Ec., CPA., FPA®
Financial Strategist
Authorised Representative



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How to get 'money for nothing'

Concessional contributions are a magic formula for some retirees.

Summary: A novel way of getting 'money for nothing' during tax time using super and pensions.

Key take-out: Concessional contributions can end up being a real boon to retirement income, just check out the calculations.

Want money for nothing? If you're a taxpayer who understands the benefits of superannuation concessional contributions (CCs), then you may already be getting that.

I am reminded of the case of one of my clients, let's call her 'Samantha', a former public servant and a member of the Commonwealth Superannuation Scheme who was able to access the benefits of a CSS '54/11 strategy (the practice of resigning from the Commonwealth Public Service before turning age 55 to preserve CSS super benefits).

As an alternative to 100 per cent reliance on her 'unfunded' government retirement income eroding with the ravages of inflation, she cashed part of her CSS benefit and invested this into the market via a combination of super accounts and account-based pensions (ABPs).

Samantha's annual taxable income was \$55,217, including a retained CSS pension of approximately \$47,302 per annum. (Her gross annual income was, in fact, \$58,325 as she also had tax-free ABP income of \$3,108 per annum.)

Samantha estimated she was due for a tax bill of just over \$2000 for 2017-18, but she decided that this year she would not make a CC to super as it was "not worth the effort".

Now, Samantha has an excellent understanding of taxation and superannuation issues, and as a former PAYG employee, she felt that a tax bill of around \$2,000 on a taxable income of approximately \$55,000 per annum was OK (which is a reasonable assumption, if you take a take the strictly linear approach that the net tax benefit of her CC strategy was only around \$940 per annum).

Therefore, by making a CC in June 2018, she would in fact (as she did last financial year) be able to create a net tax saving of approximately \$5,000, a further boost to her super savings pool.

However, to take a 360-degree view, we need to revisit Samantha's 2016-17 tax year results, which saw:

- Samantha receive a net tax refund of \$7,567 of the tax withheld by the Commonwealth Superannuation Scheme on her final 2017 tax assessment, and;
- A net tax saving (after allowing for 15 per cent contributions tax) of \$4,782.

So, how exactly did Samantha get money for nothing?

In 2017, using funds from her savings, Samantha made a tax deductible/CC to super of \$30,721, which reduced her taxable income to \$24,496.

Without the CC tax deduction, her taxable income would have remained at \$55,217, made up of her gross CSS pension, plus her taxable ABP and bank interest. (Samantha's gross income was in fact \$58,325 as she also had tax-free ABP income of \$3,108 per annum).

The tax payable on the \$55,217 taxable income with no CC tax deduction would have been \$1,847, even after allowing for the \$7,851 in PAYG Withholding Tax (PAYG WHT) and the \$726 ABP tax offset (which the Government permits).

Without her CC tax deduction last financial year, Samantha would have received a Notice of Assessment advising her to pay the ATO \$1,847, which she was still quite happy to pay. However, Samantha had forgotten to also allow for the PAYG WHT (\$7,852) retained by CSS on her gross fortnightly CSS pension which, without her CC, would have meant a net total personal tax liability of \$9,699 rather than the \$1,847 she thought was reasonable!

After making a CC of \$30,721 to her superannuation in 2017, Samantha was entitled to a \$4,782 net tax saving – or as I like to think of it, 'money for nothing'. Comparative outcomes are tabled below:

Estimated tax position	Without CC strategy	With CC strategy
Gross CSS pension	\$47,302	\$47,302
Taxable ABP* income	\$4,841	\$4,841
Tax Free ABP income	\$3,108	\$3,108
Bank Interest	\$3,074	\$3,074
Gross Income	\$58,325	\$58,325
Less Tax Free ABP	\$3,108	\$3,108
Less CC to Super	NIL	\$30,721
Taxable Income	\$55,217	\$24,496
Tax calculated	*\$8,595	\$25
Plus Medicare levy	\$1,104	\$284
Tax due	\$ 9,699	\$309
Less PAYG WHT & ABP tax offset	\$7,852	\$7,852
Tax payable / refund	Dr \$1,847	Cr \$7,543

GROSS Personal Tax saved: **\$9,390**
 (\$7,543 refund + \$1,847 further tax due without CC strategy)

NET tax saving: **\$4,782**
 Less super contributions tax on CC (i.e. 15% x \$30,721 = \$4,608)

The bottom line

By any count, a net tax saving of \$4,872 in 2017 was well worth Samantha's \$30,721 CC to super strategy. Overall, she has managed to improve her superannuation position and not pay additional tax – and get a \$4,500 - \$5,000 annual benefit.

In this financial year, of course, she can only make a CC of \$25,000. Nevertheless, an estimated \$4,500 per annum saving was – and will continue to be – well worth an annual \$25,000 pa CC strategy from the 2018 financial year and beyond.

Samantha certainly has picked up 'money for nothing' – but it is a pity the superannuation and tax system is so complex that most ordinary mums and dads cannot easily navigate their way through it.

<https://www.investsmart.com.au/investment-news/how-to-get-money-for-nothing/143153>

Creating a fairer superannuation balance

Creating performance league tables won't rectify the super mess.

Summary: The Productivity Commission will play a central role in the development of superannuation fund performance league tables.

Key take-out: The bigger issue is creating standard definitions for the different asset allocation terms being marketed.

The flaw in the superannuation system revealed by the Royal Commission is the fact that few people actually understand the complexities or issues of what we have.

And what we have is a mess which allows marketing spin and self-interest to distract long-term investors away from the sole purpose of superannuation – to provide funds for retirement.

The mess starts at the top. The very senior bureaucrats in Canberra who are advocating significant change to the industry are the people who invented the system we are suffering under. Now they are advocating new ways of looking after savings by appointing the Productivity Commission to a new oversight position.

Appointing the Productivity Commission to be the arbiter of the top performing funds 'hit parade', or league table, is mindbogglingly foolish.

For a start, there is an absolute conflict of interest for these public servants, who along with our politicians are entitled to a defined benefit pension in retirement, while the rest of us 'civilians' are left trying to decide which 'fund' performed best.

Instead of developing a league table, the Productivity Commission should be creating a clear understanding of superannuation terminology – and publishing that information. We need to compare apples with apples.

Industry funds, retail funds and self-managed super funds (SMSFs) are just tax structures which allow us to invest in the same underlying assets. Some structures cost more and some cost less – and some have different functionality – but that is a minor issue. The major issue is that Canberra senior bureaucrats should not be cheerleading for any structure, super fund or super sector.

What is vitally more important is for superannuation members to clearly understand how their money is allocated – but I haven't heard anything from the Commission or its proponents about this.

The Productivity Commission should actually set specifications for the various asset allocations labelled 'Defensive', 'Conservative', 'Moderate', 'Balanced', 'Growth', and 'High Growth' by (a) asset class and (b) their appropriate weightings to growth vs defensive assets allocations for each defined profile.

If the Productivity Commission is given these 'league table' ranking responsibilities, we will find ourselves wading through a new Royal Commission in the next decade as those who were burnt by the top 10 league chart put pressure on politicians to answer questions about why their investments underperformed.

There seems to be a collective 'take-out' from the Royal Commission that somehow industry super funds are 'good' and that retail super funds and SMSFs are 'bad'.

Recent media reports state that industry funds are currently recipients of transfers from retail funds, which all plays well to a narrative that there is good and bad amongst the various methods of superannuation funding.

If we are to be black and white, industry funds are not the cheapest form of super fund available, they are not the most flexible, and they don't have the best insurance options. But they are still good. The same can be said for retail funds and SMSFs.

What we need to consider is the make-up and investment approach all funds adopt and look across the same skyline.

In other words, use a mandated description of what constitutes a certain style of investing. We need appropriate benchmarks, so we can all really compare the performance of a particular fund to the right benchmark for a designated risk profile.

And we don't need self-interested senior bureaucrats trying to pick the winning superannuation fund of the future!

No one can do that, least of all the senior bureaucrats and their masters in Canberra.



Theo Marinis

[More articles from Theo Marinis >](#)

‘Money for nothing’ – if you know where to look

By Theo Marinis

“Taxpayers who understand the benefits of superannuation Concessional Contributions are picking up money for nothing”, according to Adelaide based financial strategist Theo Marinis.

“I am reminded of the case of one of my clients, ‘Samantha’ (a former public servant and a member of the Commonwealth Superannuation Scheme - CSS) who, with the help of our strategic advice, was able to access the benefits of a CSS ‘54/11’ strategy.

As part of our recommended strategy (as an alternative to 100% reliance on her ‘unfunded’ government retirement income eroding with the ravages of inflation) she cashed part of her CSS benefit and invested it in the markets via a combination of super accounts and Account-Based Pensions (ABPs).

Samantha’s annual taxable income was currently \$55,217; this includes retained CSS pension of approximately \$47,302 p.a. (Her gross annual income was, in fact \$58,325 as she also had tax free ABP income of \$3,108 pa).

She estimated that she was in line for a tax bill of just over \$2,000 for 2017/18, but she decided that this year, she would not make a Concessional Contribution (CC) to super as it was “not worth the effort.”

Now, Samantha has an excellent understanding of taxation and superannuation issues, and as a former PAYG employee, she felt that a tax bill of around \$2,000 on a taxable income of approximately \$55,000 p.a. was OK (which is a reasonable assumption, if you take a take the strictly linear approach that the net tax benefit of her CC strategy was only around \$940 pa).

In fact, by making a concessional contribution in June 2018, she would in fact (as she did last financial year) be able to create a NET tax saving of approximately \$5,000 – as well as a further boost to her super savings pool.

To demonstrate that there was a 360 degree perspective to this strategy, however, we needed to revisit her 2016/17 tax year results, which saw:

- a) **Samantha receive a net tax refund of \$7,567 of the tax withheld by Commonwealth Superannuation Scheme on her final 2017 tax assessment, and;**
- b) **a net tax saving (after allowing for 15% contributions tax) of \$4,782.**

How did this work?

- In 2017, using funds from her savings, Samantha made a tax deductible/concessional contribution to super of \$30,721, which reduced her taxable income to \$24,496.
- Without the CC tax deduction, her taxable income would have remained at \$55,217, made up of her gross CSS pension, plus her taxable ABP and bank interest. (Samantha’s gross income was in fact \$58,325 as she also had tax free ABP income of \$3,108 pa).
- The tax payable on the \$55,217 taxable income with no CC tax deduction would have been \$1,847 even after allowing for the \$7,851 in PAYG Withholding Tax (PAYG WHT) and the \$726 ABP tax Offset (which the government permits).
- Without her CC tax deduction last financial year, Samantha would have received a Notice of Assessment advising her to pay the ATO \$1,847 (as she quite happily told me she had expected to pay when we started this discussion).

- However, Samantha had forgotten to also allow for the PAYG WHT (\$7,852) retained by CSS on her Gross fortnightly CSS pension which, without her CC, would have meant a NET TOTAL Personal tax liability of \$9,699 rather than the \$1,847 she thought was reasonable!
- After making a CC of \$30,721 to her superannuation 2017, Samantha was entitled to \$4,782 NET tax saving - or, as I like to think of it, 'money for nothing'. Comparative outcomes are tabled below:

Estimated tax position	Without CC strategy	With CC strategy
Gross CSS pension	\$47,302	\$47,302
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* Including LITO & ABP rebate

Conclusions:

By any count, a NET tax saving of \$4,782 in 2017 was well worth Samantha's \$30,721 CC to super strategy. Overall, she has managed to improve her superannuation position and not pay additional tax – and get a \$4,500 - \$5,000 annual benefit.

In this financial year, of course, she can only make a CC of \$25,000 this financial year; nevertheless, an estimated \$4,500 pa NET saving was – and will continue to be – well worth an annual \$25,000 pa CC strategy from the 2018 financial year and beyond!

'Samantha certainly has picked up 'money for nothing' – but it is a pity the superannuation and tax system is so complex that ordinary mums and dads, without the advice of a financial strategist, cannot navigate their way through it,' Theo said.

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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!

"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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