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An Open Letter to The Honourable Senator, Nick Sherry, Minister for Superannuation

The Rudd Government has been urged not to change Transition to Retirement (T2R*) rules, which have been described as the "last gasp hope for older Australians that they will have the dignity they deserve in retirement" and "the simplest yet most profound super change in a generation."

Adelaide based financial strategist Theo Marinis of Marinis Financial Group wrote to Senator Nick Sherry, the new Minister for Superannuation, on 11 March 2008 and described the T2R initiative as "One of the few really inspired initiatives in superannuation by the previous government."

"Any new minister is right to review all rules and regulations relating to their portfolio, however I believe tinkering with, or removing, the T2R rules would be a regressive step which would inadvertently disadvantage those hard working people who struggle to put their kids through school and pay off their mortgage."

"The government needs to realise that there are simply not enough dollars and not enough time without T2R arrangements in place to put away enough superannuation to survive on in retirement."

"The silly thing is that T2R is actually revenue positive for the country. It keeps older workers (who otherwise would either retire to a part or full age pension or deliberately become unemployed to receive Newstart) active in the workforce, paying tax, deferring consumption (and therefore assisting inflation) and growing their super (thereby mitigating future social security outlays)."

"But what is even more important for me is that it keeps older Australians active in the workforce and experts tell us constantly, that working people are healthier and happier."

"Some special interest groups will argue that T2R is too generous and will be exploited by the wealthy, however the new caps on deductible super contribution ensure this is not possible," Theo said.

Theo provided Senator Sherry with case studies which are attached to this media release to highlight how the individual working Australian and the federal government both benefit financially from the T2R rules being applied appropriately.

(* Transition to Retirement, or T2R, is the rule brought in on 1st July 2005 which allows working Australians over 55 to salary sacrifice directly from their pay into their superannuation while funding their lifestyle by drawing down on a pension from existing superannuation funds. In effect, the working person receives a tax discount on the salary so long as that money is being put back in to retirement savings. The ATO has confirmed they have no tax avoidance concerns with such arrangements)

Attachments: Letter to Senator Sherry and T2R Case Studies.

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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.

11th March 2008

Senator Nick Sherry
Minister for Superannuation
Parliament House
CANBERRA ACT 2600

Dear Senator Sherry

RE: Transition to Retirement Rules

As you well know, the financial services industry is probably the most gossip ridden of all. However, if the latest "rumour" that the Rudd Government is considering removing the Transition to Retirement (T2R) rules is true, I'd ask you to seriously reconsider such action – it is my view that the T2R revolution was one of the few really inspired initiatives in superannuation by the previous government.

T2R is, as I'm sure treasury will confirm, revenue positive for the country. It keeps older workers (who otherwise would either retire to a part or full pension or deliberately become unemployed to receive NewStart) active in the workforce, paying tax, deferring consumption (and therefore assisting inflation) and growing their super (thus mitigating future social security outlays).

What is even more important to me is that people in the workforce are, according to experts, happier and healthier – which is the kind of older Australians all of us want.

Of course there is a theoretical cost to maintaining T2R. However, if you consider the attached simple case study of a client of mine, you will understand how it works best for the country:

Some special interest groups will counsel you that T2R is too generous and will be exploited by the wealthy, however the caps on super contribution ensure this is not possible. The real beneficiaries of T2R are, in my view, the working mums and dads who have invested their extra cash in paying off their mortgage, putting their kids through school and suddenly find themselves facing an under-funded retirement. In many ways, T2R is the last gasp hope for older Australians that they will have the dignity they deserve in retirement.

Senator, I base my views on my experience as an accountant, an economist and a qualified financial adviser with more than 10 years private practice experience, which builds on my time working in the ATO, Centrelink and the ISC. I believe I am uniquely qualified to understand the link between retirement policy and the need for equity in revenue collection by the Government.

On behalf of the working older Australians that I advise here in Adelaide, and all those others around the country, I ask you to please ignore calls to remove the T2R rules which are in place.

Yours sincerely

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategist

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T2R CASE STUDY, DAVID 61 and KERRIE 55

For David aged 61 and his wife Kerrie, transition to retirement has been a perfect strategy for building up their superannuation balance in a tax-effective way while they both continue to work.

David and Kerrie made the decision to salary sacrifice as much as they could afford into their superannuation after T2R legislation was enacted.

The result has been a significant increase in their superannuation balance over the past few years, which will give the couple much more flexibility and income when they do finally decide to retire.

How this type of T2R and Super Salary Sacrifice Strategy works is summarised in the case study example which follows:

T2R Case Study Example (based on 2007/08 tax rates)

Based on 2007/08 Tax Rates	**David (Aged 61)**	**David (Aged 61)**
$90G Salary, Pension, Salary Sacrifice	Without Transition Income Stream	With Transition Income Stream + Super Salary Sacrifice
Salary Package	98100	98100
Salary	90000	30000
Salary sacrifice	0	65400
Superannuation Guarantee	8100	2700
Gross Take home salary	90000	30000
Allocated pension	0	Tax Exempt from 1/7/2007
Total Gross take home income	90000	30000
Deductible amount		0
Assessable income	90000	30000
Tax payable (net of Tax Offsets)	23100	2350
Medicare levy payable	1350	450
Pension Tax offset	0	0
Net income	65500	65500 (27200 net salary + 38300 tax free pension payment)

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T2R Case Study Example (based on 2007/08 tax rates)

SUPER		
Opening balance	600000	Transferred to Pension
Contributions	8100	68100
Personal After tax Contribution/Co Contribution	NIL	2449
Earnings (Est. 7% pa gross)	42567	4767
Tax Payable	7600	10930
Closing balance	643067	64437
TRANSITION INCOME STREAM		
Opening balance	0	600000
Pension Received	0	(38300)
Earnings	0	42000
Closing balance	0	603700
Total Super and/or Transition Pension balances	643067	668137

(Source: Marinis Financial Group)

Clearly with such a strategy, David is able to save tax and significantly beef up his super in the years leading up to permanent retirement.

David's personal tax bill drops from $24,450 to $2,800 due to his Salary Sacrifice contribution, yet his available income is unchanged at $65,500 due to his tax exempt T2R pension income, which has replace his Salary Sacrificed income.

As a result of the strategy David will qualify for full Low Income and Mature Age Worker Tax offsets.

Further, should David also choose to make an additional $1,000 after tax super contribution, he also will now be eligible for approximately $1,445 of government co-contribution.

These T2R rules clearly allow workers to save on tax and beef-up their super. However workers aged over 55 can also use these new provisions to supplement part-time wages, receive extra tax-effective income or step up super savings, as demonstrated above.

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PRE T2R (NEWSTART) STRATEGY EXAMPLE

Prior to the introduction of the T2R rules David's options were more limited. He either worked full time or retired full time.

Thus, prior to T2R, clients like David would frequently opt for "retirement" even at age 55, (to have access to their non preserved super) and would often also access Centrelink benefits such as Newstart by satisfying a voluntary work mutual obligation.

Pre T2R such a Newstart strategy would see David cease work and BOTH David and Kerrie would apply for Newstart.

Newstart Case Study Example (based on 2007/2008 tax rates)
Centrelink Asset Test

David's Super (Centrelink Asset Exempt)	($400,000)
David's Account Based Pension (ABP)	100,000
Kerrie's Account Based Pension (ABP)	100,000
Joint Bank Accounts	15,000
Motor Vehicles	10,000
Personal Effects	10,000
Centrelink Assessed Assets (Excluding Super/Home)	**$235,000**

<u>Not Asset Test Affected Full Newstart Payable</u>
Centrelink Income Test

David ½ Bank Account Deemed		$262 pa	Kerrie ½ Bank Account Deemed		$262 pa
ABP		$6,148 pa	ABP		$4,697 pa
- Centrelink			- Centrelink		
Ded Amt	-4,798 pa	+1,350 pa	Ded Amt	-3,347 pa	+1,350 pa
Centrelink Assessed Income		**$1,612 pa**	**Centrelink Assessed Income**		**…..$1,612 pa**

<u>Thus both David and Kerrie are neither Income or Asset Test affected</u>

Thus David and Kerrie would BOTH apply for Newstart and by satisfying a voluntary work test mutual obligation would receive full Newstart Allowance. Their combined TAX FREE income would be as follows –

David	Newstart Allowance	$10,083 pa	
	+ ABP	6,148 pa	
	+ Bank Interest	262 pa	
Kerrie	Newstart Allowance	$10,083 pa	
	+ ABP	4,697 pa	
	+ Bank Interest	262 pa	
	Total Combined Tax Free Income	**$31,535 pa**	**(with the ability to also draw lump sums from their super as required)**

The only tax paid between them in the above strategy would be contribution tax on their $400,000 super.

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If we assume a 4.5% income yield = $18,000 fund income @ 15% contribution tax = $2,700.

Thus the net cost to government revenue in this example is as follows –

Estimated Contribution Tax collected (David's Super)	+	$ 2,700
Less Centrelink outlays	-	$20,166
Net Government Outlays	**-**	**$17,466**

Whereas, in the T2R scenario, despite a significant tax reduction (all of which is going directly into David's super account) the net cost to government revenue is as follows –

Estimated Contribution Tax collected (David's Super)	+	$10,930
Plus David's personal tax liability	-	$ 2,500
Net Government Revenue		**$13,730**

Thus the T2R scenario sees government revenue collected from David and Kerrie's T2R strategy of $13,730 as compared with net **outlays** of $17,466 in the old Newstart scenario. A net positive contribution to government revenue $31,196 of the T2R vs Newstart scenario.

Further, the T2R strategy is permitting David and Kerrie's super to grow rather than stagnate or reduce in value. This has positive impacts for both David and Kerrie at a microeconomic level (in that they will have a more comfortable retirement eventually, a result of a larger super balance) and to the government in future (in that they will be self funded or only partially reliant on Centrelink benefits after retired).

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