

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://marinigroup.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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