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.

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.

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 name/s – but please NOTE that this is a real life case study (published with the approval and consent) of the actual client/s of Marinis Financial Group. All details are correct other than the name of the person/s involved, which have been changed to protect their privacy.*

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