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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**
LESS Tax Free (NANE) ABP	- $ 18,000		
Assessable Income	**$ 58,126**	**Assessable Income**	**$6,000**
LESS - CC to Super – John - Adviser Service Fee	- $ 23,050 - $ 4,296		
Taxable Income pa	**$30,780**	**Taxable Income pa**	**$6,000**

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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For further information, please contact:

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