

Juicy options for retiring mandarins

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Theo Marinis, principal of Marinis Financial Group. Picture: James Elsby Source: News Limited

WITH the new Coalition government pledging to slash the size of the federal bureaucracy, it's never been a more nervous time to be a public servant.

Mass redundancies aside, two-thirds of public servants are eligible to retire during the next decade, but few are aware of retirement pension options that can make a huge difference to their income.

That's the view of Adelaide-based financial planner and former public servant Theo Marinis, who is on a mission to raise the awareness of the so-called 54/11 option, unique to members of the Commonwealth Superannuation Scheme.

Post age 55, retiring public servants generally are entitled to a healthy life pension, usually between 40 per cent and 70 per cent of their former pay.

But for proactive pre-retirees it can get much better.

As its name implies, the 54/11 rule applies a different superannuation benefit for members who resign from the public service just before their 55th birthday.

"The option ... 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 the CSS, until age 55," Marinis says.

Other advisers are slightly more circumspect. "It's a fantastic option but you have to be a bit careful," says financial planner Laurie Ebert, who specialises in advising public servants.

"It may not be automatically viable, it all depends on what the calculation brings up."

Ebert cautions that the difference between the standard and the deferred option has to be significant, "or else there's no point".

Sadly for newcomers, the CSS was deemed too generous and was closed for new accounts from July 1, 1990. The CSS was replaced by the less generous Public Sector Superannuation Scheme, which was closed to new members from July 2005.

But there are still considerably more than 20,000 CSS members, generally aged 40 or older.

The 54/11 advantage arises because the formula used by CSS to calculate the deferred pension is different from that used for calculating the standard pension (paid on retirement after age 55).

In essence, the deferred pension formula is based on accumulated contributions and fund earnings, so investment returns will affect the final pension.

The standard (defined) pension is a formula based on the member's final average salary as well as length of service.

As with the deferred arrangement, superannuants must take a standard indexed pension but also have the option to purchase an additional non-indexed pension with their lump sum accumulation account or receive a refund as a lump sum.

According to the CSS website, "neither calculation is always better than the other; it depends on your personal situation, needs and financial goals".

While the standard pension option sounds more attractive, Marinis contends that "nine times out of 10" the 54/11 approach is more beneficial.

In some cases, the early retiree is better off than colleagues slaving away for another five years or more. "In many cases you would have to work into your 60s to get the same pension," he says.

Ebert cautions the difference between the standard and the deferred option has to be significant, "or else there's no point".

And many public servants don't crave an early exit, for any number of reasons.

Ebert says the subdued market performance since the global financial crisis also has dented account balances.

"Three or four years ago there were some amazing figures being thrown up because of high returns, but the subsequent fall in returns has drastically reduced balances," he says.

Of course, nothing is simple when it comes to super, with taxation and social security considerations to take into account.

For instance, a member taking the additional pension option (rather than the lump sum) should bear in mind the payments are non-indexed and thus erode in real value. They are also Centrelink-assessable for future part-age government pension entitlements.

Another variable is whether the 54/11 deferrer (who could be any age under 55) chooses the balanced option or the safer cash option for the preserved sum.

While the latter provides certainty as to the eventual amount on which the pension is drawn, a balanced or growth option offers superior performance over a longer period.

Ebert says he strongly supports the cash option, especially if the member is close to 55: "Most public servants are very conservative anyway."

Marinis urges public servants to seek advice on the available options well before they turn 55.

As for those with a red redundancy target on their forehead, there's some comfort because the 54/11 arrangement is automatically triggered. "Redundancy can be quite distressing, but in fact the 54/11 rules were designed for this situation," Marinis says.

For example, it may be possible to start receiving a pension before age 55, or alternatively opt for a lump sum and forgo any defined-benefit pension.

As for the 200,000-plus PSS members, they cannot avail of 54/11 but they still enjoy flexibility in terms of pension and lump sum options.

"Clearly, careful planning is also required here to ensure you maximise your net retirement income," Marinis says.

Readers should consult a qualified financial planner.

Samantha's superlative symphony

FINANCIAL planner Theo Marinis cites the case of a 58-year-old client, "Samantha", who availed herself of the 54/11 option in 2009, after 37 years as a public servant.

On Marinis's advice, she switched her Commonwealth Superannuation Scheme super entirely into the cash option at age 52 in 2006. With the global financial crisis about to hit, that was a fortuitous move.

By tweaking Samantha's pension and lump-sum options, Marinis generated net annual retirement income for her of \$53,040, compared with her final-year net salary of \$53,488.

Samantha pays no personal tax on her fully-indexed pension, which is \$13,000 a year more than had she "waited until age 55 and just ticked the box".

Broadly speaking, the mechanics worked like this:

Samantha took the standard defined-benefit indexed pension option, but fully commuted (cashed out) the additional optional non-indexed pension as a 100 per cent lump sum.

In her case this withdrawal was tax-free because her lump sum was less than her low-rate cap amount (the component you are able to withdraw tax-free post age 55 and before age 60).

This was then recontributed as a 100 per cent tax-free, non-concessional contribution of \$226,000, used to start an account-based pension.

"Note the tax-free ABP income supplements her taxable CSS indexed pension," Marinis says.

Samantha pays no personal income tax because each year she makes concessional (tax deductible) contributions to super, which offset her fully taxable CSS pension.

Should Samantha need a lump sum, she can always access the \$226,000 tax-free.

Had Samantha opted to take the additional defined-benefit pension under the standard rules for those who retire after 55, the amount would have not been indexed and its real value would have eroded over time.

This pension also would have been assessable for the purpose of claiming a future part government age pension.

"There a lot of sub strategies in this financial symphony," Marinis says. "You need a conductor to make sure it all works for you but the outcomes are classical financial music."

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