Grow | Marinis Group

From:	Grow | Marinis Group
Sent:	Friday, 25 October 2013 12:49 PM
To:	Grow | Marinis Group
Subject:	Juicy Options for Retiring Mandarins

Dear Friends

If you are a federal public servant, or have a family member or friend who is one, then this eGrow may be of interest to them. This eGrow is pointing out what an extraordinary opportunity is available to many of those under the age of 55 (see the attached article from The Australian).

There is a complex web of rules that affect public servants retirement benefits which basically boil down to this: If you are eligible and resign before you are 55 (which is where the nickname 54 / 11 comes from) a public servant who makes the right decisions can be up to $200,000 better off than the same person who makes the wrong decision.

The attached article and the case study of Samantha, outlines how this works. I have also set up a webpage on our website at: http://www.marinisgroup.com.au/our-services/54-11-an-easy-decision/ for additional information.

I am committed to helping everyone understand how to get the best outcome for themselves given the situation they find themselves in when it comes to making decisions about retirement, especially considering my 'pre-season training' prior to becoming a financial planner, was over a decade of service with the ATO, Centrelink and The Insurance & Superannuation Commission – these rules are very familiar to me.

If you are not directly affected by this, please feel free to pass the email on to any friends of yours who may be or should be interested.

Note this is further to our original eGrow on 54/11 of 23rd August 2013.

As always, I welcome any questions, therefore please do not hesitate to call us at our office.

Yours sincerely

Theo Marinis B.A, B.Ec, CPA, CFP®
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THE AUSTRALIAN

Juicy options for retiring mandarins

TIM BOREHAM THE AUSTRALIAN OCTOBER 05, 201312:00AM

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 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."

Media Release No: 51 **21st August 2013**

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!

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"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://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 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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