Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Friday, 7 October 2016 11:01 AM
Subject: I've Upset a Few People!
Attachments: 1. Ultimately, the Outcome of the Coalition's.pdf; 2. Super Opportunity for Ex-Public Servants.pdf; 3. Here's $1.5 Billion in Savings.pdf

Dear friends

As most of you know, I see my job primarily as looking after my clients, my staff, and then the rest of Australia – by pointing out the anomalies and hypocrisy imbedded in our super system.

Recently my discomfort with our politicians and their advisers, along with the public service, has gained some national coverage http://www.marinisgroup.com.au/assets/2016_09_10_-_Message_to_Australian_MPs.pdf. That discomfort relates to their receipt of a 10% tax offset on their defined benefit super pensions after attainment of age 60 (whilst at the same time cutting back on superannuation opportunities for ordinary working people).

Similarly, journalist Judith Sloane (as per the attachment) referred to the 'Pampered Pooches' of the public service balking at the idea of limiting the 10% tax offset to the first $100,000 of pension. Put in perspective, a former PM on $500,000 pa pension would receive an extra $50,000 pa, whilst ordinary working Australians are having their pensions cut on 1 January 2017 and those planning for retirement are having investment opportunities closed in their faces.

My view is that ALL Australians should be under the same super scheme. Politicians and public servants would be less likely to make changes that disadvantage ordinary people if they were to receive the same treatment.

Inevitably, my views have upset some former colleagues, friends and family who, as past or serving members of the Commonwealth public service, enjoy the 10% tax offset.

Despite their displeasure, I will not back away from my view that we need the same system for all.

Of a number of colleagues who have contacted me to point out that their retirement income would be significantly lower without the offset, sadly, none had seen a financial planner prior to deciding how to structure their retirement income. In contrast, my former public service clients (including all those on the 54/11 scheme) do not pay any personal tax, even before they turn 60!

To demonstrate what can be achieved within the tax environment currently available to all recipients of superannuation income streams, I have included a media release here. It provides income and taxation details (with their approval) of an actual client situation for a former public service employee and his wife. For the purpose of this exercise, we have called them 'John & Tatum'.

In the example, John's personal gross retirement income equals $76,126 pa, yet John only pays $1 of personal tax plus $3,459 of super fund tax on his annual Concessional Contributions to super, for total tax of $3,460 pa. Even after allowing for an annual advice fee ($4,296 in this example) combined tax and advice fees payable would be $7,756 pa.

John's net income after advice fees and tax is therefore $68,370 pa; almost double the combined couple, age pension rate.

John and Tatum are not concerned about receiving or losing the 10% Tax Offset for which John will be eligible from age 60, as they do not need it!

Whilst I realise that a discussion on public service retirement is not of interest to everybody, I am of the view that fairness in the system is something we all expect.

As always, if you would like to discuss any aspect of this edition of eGrow or its attachments, please do not hesitate to contact me or any member of the Marinis Financial Group team on 08 8130 5130 or via email at admin@marinisgroup.com.au.

Attachments

1. Source: Weekend Australian 17/09/2016 - Ultimately, the Outcome of the Coalition's Super Fiasco will be a Policy Dog's Breakfast
2. Source: Marinis Financial Group - Media Release No: 53 - 21/082013 - Super Opportunity for Ex-Public Servants, 34/11 - You CANNOT be Serious!
3. Source: Marinis Financial Group - Media Release No: 66 - 08/09/2016 - Here's $1.5 Billion in Savings - Without Screwing Down Older Australians

Kind Regards

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Ultimately, the outcome of the Coalition's super fiasco will be a policy dog's breakfast

Unlike his predecessor, Malcolm Turnbull was allowed to get away with breaking a promise

JUDITH SLOAN
CONTRIBUTING ECONOMICS EDITOR

The biggest take-home message from this week's superannuation changes by the government is that the Coalition can never be trusted on superannuation. Its leaders say one thing and do another, trying to out-Labor the ALP when it comes to imposing higher taxes on savers who are seeking to provide for their retirement.

And how should we interpret the government's backflip on the crazy backdated lifetime post-tax super cap? During the election campaign, Malcolm Turnbull was adamant: "I've made it clear there will no changes to the (superannuation) policy. It's set out in the budget and that is the government's policy." I guess that was then.

What a complete fiasco the superannuation saga has been. Mind you, Scott Morrison and Revenue and Financial Services Minister Kelly O'Dwyer have only themselves to blame. They were hoodwinked by extraordinarily complex and misleading advice given by deeply conflicted bureaucrats. The only conclusion is that they are just not that smart.

How do I know this? Because Treasury has been trying to convince treasurers for years that these sorts of changes must be made to the tax concessions that apply to superannuation. Mind you, these concessions apply because superannuation is a long-term arrangement in which assets are locked away until preservation age is reached.

It was only when the Treasurer and O'Dwyer took on their exalted positions that Treasury was able to execute its sting. Other treasurers (even Wayne Swan) had the wit to reject Treasury's shonky advice.

But here's the bit of the story I particularly like: when it came to the proposal that those pampered pooches (the advising bureaucrats) should pay a small amount of extra tax on their extraordinarily generous and guaranteed defined benefit pensions (the 10 percentage point tax rebate will cut out at retirement incomes above $100,000 a year), they baulked at the idea. This is notwithstanding the fact they have been members of funds that have paid no taxes during their careers and they will have also built up substantial accumulation balances on extremely concessional terms. Clearly, no one in Treasury has heard of the rule that what's good for the goose is good for the gander.

Let us not forget that the superannuation changes announced in the budget represent a colossal broken promise by the Coalition government not to change the taxation of superannuation, a promise reiterated on many occasions by Morrison when he became Treasurer.

While trenchantly criticising Labor's policy to impose a 15 per cent tax on superannuation retirement earnings of more than $75,000 a year, he made this pledge: "The government has made it crystal clear that we have no interest in increasing taxes on superannuation either now or in the future. Unlike Labor, we are not coming after people's superannuation."

> Other treasurers (even Wayne Swan) had the wit to reject Treasury's shonky advice

When you think of all the criticism Tony Abbott faced, including from the media, about his broken promises on (supposed) cuts to health, education and the ABC — actually the growth of spending in these areas was merely trimmed — it is extraordinary that there has not been the same focus on this unequivocally broken promise of the Turnbull government.

To be frank, I am not getting too excited about the government's decision to scrap the loony idea of having a backdated post-tax lifetime contribution cap. It was never going to fly.

The fact David Whiteley, representing the union industry super funds, is endorsing the tweaked super package is surely bad news for the government. He has declared "this measure, combined with the rest of the proposed super reforms, will help rebalance unsustainable tax breaks and redirect greater support to lower-paid workers who need the most help to save for retirement".

Actually, the government does the saving for these workers by guaranteeing them a lifetime indexed age pension. It is the middle (and above) paid workers who need the most help to save for retirement.

It will also be interesting to see Whiteley's stance when O'Dwyer seeks to push through changes to the governance of industry super funds and default funds. Here's a tip, Kelly: he won't be your friend then. My bet is that O'Dwyer will lose again on this front.

In terms of the replacement of the lifetime non-concessional cap, the government's alternative is extremely complex and potentially as restrictive. Post-tax contributions will be limited to $100,000 a year (they can be averaged across three years), but only for those with superannuation balances under $1.6 million.

The fact the market value of these balances fluctuates on a daily basis makes this policy difficult to enforce. Is the relevant valuation when the contribution is made or at the end of the financial year?

And what about the person who is nearly 65 and is barred from making any further contribution, but the market drops significantly after their birthday? O'Dwyer's response no doubt would be: stiff cheddar, egged on by her protected mates in Treasury who bear no market risk at all when they retire.

What the government is clearly hoping to achieve is that, in the future, no one will be able to accumulate more than $1.6m as a final superannuation balance. At the going rate of return that retired members can earn on their balances without taking on excess risk, the certain outcome is that there will be more people dependent on the Age Pension in the future. But Morrison and O'Dwyer will be long gone by then.

There is also a deep paternalism underpinning this policy. An income slightly north of the Age Pension is sufficient for old people, according to Morrison and O'Dwyer. After all, Morrison had no trouble describing people with large superannuation balances as "high income tax minimisers".

We obviously should have been more alert to the possibility of the Turnbull government breaking its solemn promise not to change the taxation of superannuation.

Last year, O'Dwyer described superannuation tax concessions as a "gift" given by the government. I thought at first she must have been joking. But, sadly, her view of the world is that everything belongs to the government and anything that individuals are allowed to keep should be regarded as a gift — the standard Treasury line these days.

The final outcome will be a policy dog's breakfast that carries extremely high transaction costs and delivers little additional revenue for the government. Superannuation tax revenue has disappointed on the downside for years and there is no reason to expect this to change.

But by dropping just one ill-judged part of the policy, the government thinks it can get away with pushing through the rest of it. The dopey backbenchers clearly have been duped into accepting it, even those new members who maintained a commitment to lower taxation and small government before they were elected.

It's a bit like a real estate agent who shows you four atrocious houses. The fifth house is slightly better and you take it. The reality is that the fifth house is also dreadful but you have been tricked into accepting it on the basis of the contrived comparison.

There are still major flaws in the government's policy. If there is an overall tax-free super cap, why have any limits on post-tax contributions at all? The figure of $1.6m is too low. And the indexation of this cap should be based on wages, not the consumer price index. The changes to transition-to-retirement should be dropped and the concessional contributions cap raised to $30,000 a year, at least, for those aged 50 and older.

But I'm not holding my breath. When Morrison said the government had "no interest in increasing taxes on superannuation either now or in the future", he told an untruth. Just watch out for more revenue grabs in the future.

From: The Weekend Australian Sept 17-18 2016 page 18

Media Release No: 53 **21st August 2013**

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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Media Release No: 66 **8th September 2016**

Here's $1.5 Billion in Savings – Without Screwing Down Older Australians

"The federal budget repair can be easily kick-started by removing a little known 'free kick' (in the form of a 10% Tax Offset) handed to the retirement pension income of politicians and public servants back in 2007. The removal of this free kick would save an estimated $1.5 billion per year," according to Adelaide based financial strategist Theo Marinis.

"It is scandalous that the very people who are planning to slug older Australians (in order to pay for fixing the mess Canberra created) gave themselves on the quiet, an unnecessary 10% Tax Offset on their already VERY generous Untaxed Defined Benefit super fund pensions.

"The really greedy aspect of this Tax Offset is that there is NO valid policy reason to give such a tax concession. The perpetrators of this policy are either ignorant, or worse still, self-centred; maybe both!

"Superannuation 101 teaches us that tax concessions on private super (ie: funds which do not provide Defined Benefit pensions) are provided to discourage people from 'double dipping' or running down their super lump sums too quickly and thus falling back on the Centrelink purse.

"These tax concessions are also provided because private super is taxed on Concessional Contributions on the way in; earnings are taxed in the fund, and prior to age 60 lump sums are taxed on the way out.

"In contrast, 'Untaxed' Defined Benefit pensions have NEVER been taxed which is why they are called 'Untaxed'. There is NO VALID policy reason to provide this obscene extra tax free kick.

"Politicians and public servants in Un-taxed schemes receiving a Defined Benefit pension cannot double dip; they automatically receive their pension each fortnight – a pension, usually automatically indexed to CPI, with no exposure to market volatility.

"Politicians and public servants in Untaxed schemes receiving Defined Benefit pensions (and there are literally hundreds of thousands of federal and state public servants in receipt of Untaxed Defined Benefit pensions) already have a predictable and VERY generous retirement income.

"And, after age 60, they granted themselves their 10% Tax Offset!

"There are approximately 100,000 pension members of the Commonwealth Super Scheme (CSS) each benefiting by a very conservative average of $3,000 pa. The removal of this rort would automatically save $300,000,000 – every year.

"In addition, there are those on the PSS, DFR Defined Benefit and all the state and Territory Government Defined Benefit pension schemes, PLUS the old, very generous, Un-taxed pension schemes for politicians!

"Meanwhile, in Canberra our leaders and their advisers, who are meant to be there to serve the public, are designing new ways to firstly, blame and secondly, to thwart the efforts of the generally hardworking and distinctly less advantaged.

"I refer to people over 60 years of age in non-federally funded, non-Defined Benefit superannuation funds. They are the people (who should be considered the 'Super Stars' of our retirement policy) who listened to the superannuation message and put away a little extra cash.

"These are also the people who, from 1 January 2017 will see their Centrelink Age Pensions cut.

"I believe that the starting point for the politicians (and the public service) should NOT be "How much can we squeeze older Australians without getting a voter backlash?" It should be, "How do we lead the nation by example and start by reducing our own excessively generous schemes – so that we ALL do our bit, to share the pain needed to repair the budget?"

"Newer members of parliament are no longer permitted to join the old VERY generous politicians Un-Taxed Defined Benefit pension scheme (this was closed to new entrants by John Howard, due to political pressure from then opposition leader Mark Latham). They are, therefore, in the same superannuation boat as everyone else, so they have NO vested interest to protect. Let's hope they lead on this matter and bring some equity (and savings) into the super debate.

"Perhaps the more newly elected politicians and cross benchers can take the lead and cross the floor to force this overdue change in the present parliament!" said Theo Marinis.

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Disclaimer

The information in this article reflects Theo Marinis' understanding of existing legislation, proposed legislation, rulings etc. as at the date of issue. While it is believed the information is accurate and reliable, this is not guaranteed in any way. The information is not, nor is it intended to be comprehensive or a substitute for professional advice on specific circumstances.

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