Grow @ Marinis Group

From: Grow | Marinis Group
Sent: Friday, 17 November 2017 11:32 AM
To: Grow | Marinis Group
Subject: A reflection
Attachments: 2017 10 10 - Eureka Article - Retiring from the public service.pdf

Dear Friends,

A Reflection – does financial planning actually work for people in defined benefit retirement funds?

I am writing to you as clients who were eligible for Defined Benefit pensions.

Each of you are one of our 106 Defined Benefit client stories at Marinis Financial Group.

You received our November eGrow just after Melbourne Cup. I have included it again with this communication because I'd like to invite you to share your own success with your former colleagues and friends who are still weighing up their financial future (so that they, like you, can learn about all their options).

About 18 months ago, I was contacted by a senior public servant in Canberra who wanted to understand what a financial planner could do for him. He listened, read, argued and, it breaks my heart to tell you, decided to take a 100% Defined Benefit pension.

I estimate he has foregone at least $20,000 per year, inflation will destroy the worth of his pension – and – his estate will get nothing.

With that in mind, about a year ago, I decided to look back at a number of our clients who were members of defined benefit superannuation funds to test exactly how we had added value.

The reflection which follows is part of the result of that testing process. It also reflects my passion to help as many people in defined benefit super funds as possible, to get the best out of their retirement opportunities.

I started talking with Damian and Dave about a decade ago. Both very successful people, they were members of defined benefit superannuation funds. (That meant that there was a promised fortnightly 'pay' for them in retirement – up to 70% of their final salary.)

As in all human situations, there were a lot of moving parts to this case. Damian and Dave were in different funds and had slightly different short to medium term plans – and one had children. The outcome of the plan was described as 'spectacular'.

I believe Damian and Dave's (very real*) case study can help people understand what a significant difference a good financial strategy can make – even to a defined benefit retirement. It produces a very satisfying result.

I've sent it to you in the hope that if it is not entirely relevant to your circumstances, you will pass it on.

You can access Damian and Dave's story in our November 2017 eGrow below.

Please circulate it to your friends and family. If anyone wants to chat about it, please remind them I am always available.

As always, it has been a privilege to help you get the most out of your retirement planning.

Sincerely,

Theo

*Their real case study though NOT their real names.

Nov eGrow to follow on HERE

Dear Friends,

Looking back to make sure we are going forward

As those of you who know me well (which is most of you) will be aware, I am a restless soul. I love to keep researching and creating ways to improve retirement outcomes.

I have directed and planned the retirement of many old friends from my early career (or my apprenticeship, as I sometimes describe it) with the ATO, Centrelink and the Insurance and Superannuation Commission (ISC) – as well as many of my direct family members.

Of course, I see the figures regularly, but they only capture snapshots. I needed to conduct a more thorough investigation into whether or not we were adding value. If the answer had been no, I may have considered closing the business!

Around 2013, therefore, I started writing a number of case-based media releases, and I used them as the starting point for my investigation.

Four years later, looking back on where all those actual clients find themselves now, I am delighted with what I see.

In particular, Damian and Dave's results really excited me. Based on my advice, only seven years from our starting point, they have almost doubled their net super and account based pension balances from $1.045M in mid-2010 to $1.981M.

We have had other similar outcomes for numerous clients but not such a BIG change in such a short period of time. The excellent employer contribution rate into the Defined benefit Super SA certainly helped Damian & Dave, as did the great returns post GFC, but they would not have achieved the final outcome on their own.

Under guidance, Damian and Dave achieved this result by taking a bit of short-term pain. They salary sacrificed into super and made additional concessional contributions each year in order to make sure their post work years were comfortable.

Their strategy was tricky. Without strict planning they would have been liable to pay extra tax, and Dave would have had a Transfer Balance Cap issue. As a result of my advice, they get to keep a lot more of their cash than they would have otherwise.

I have attached a **PDF** of an article which appeared recently in the Eureka Report (an online finance magazine) describing Damian and Dave's Defined Benefit super retirement strategy. It provides specific details should you (or a friend) be interested in more information.

For me it clearly demonstrates the power of good financial advice.

It also clearly demonstrates that the sooner people seek advice the better. Had Damian and Dave waited until after Dave retired we would NOT have been able to achieve all that we were able to do for them.

One more thing (well, three actually!):

If you or a friend or family member are a member of a defined benefit super fund (that's one where you get a promised 'fortnightly pay' in retirement of up to 70% of your final income) please click on this **link** https://www.marinisgroup.com.au/our-services/defined-benefits-super/ to go to what we call our 'Defined Benefit Super' page and for those who are CSS members click this **link** https://www.marinisgroup.com.au/our-services/54-11-an-easy-decision/ to go to our specific CSS'54/11' page.

Here you will find all sorts of useful information and case studies relevant to people in these funds.

The important thing to know is that there can be a lot of smarter ways of ensuring a good retirement than just taking an employer's pension.

I have also provided a **link here** https://www.marinisgroup.com.au/assets/2017_11_17_-_Discussion_Paper_-_Does_Financial_Planning_work_for_Public_Servants.pdf?v=2 to my major discussion paper on retirement titled 'Does financial planning work for public servants?' – it is a reflection on several real-life case studies and starts from the point of view 'Did we add value?'

For ease of reading, I have broken the discussion paper into sections. Please feel free to read each one, or only those relevant to your situation, or none at all – as you see fit.

I think you will be surprised. I was delighted.

As always, if I or any of my team can be of assistance, please do not hesitate to contact us on (08) 8130 5130.

Attachments

1. Source: Eureka Article 10/10/2017 - PDF attachment
2. Source: Marinis Financial Group website - Links to our 'Does financial planning work for public servants?' Discussion Paper and our 'Defined Benefit Super' and '54/11' page

Kind Regards

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Retiring from the public service

A case study on how to maximise superannuation results.

Summary: Public servants can define their own retirement benefits by building in flexibility, maximising contributions, and using strategies such as contributions splitting.

Key take-out: Getting good financial advice early is imperative. Waiting until nearer to retirement would not have achieved the desired outcomes in this case study.

Thousands of Australian public servants retire every year, with most blindly following the 'water cooler talk' into comparative retirement poverty.

From my view as a former public servant, many are too constrained by their innate conservatism to look at the reality of the medium to long-term returns the financial markets can provide. Most put their hands up for maximum defined benefit pensions.

But not all. Partners Damian and Dave had slightly different retirement plans. This is their true story (with names changed to protect their privacy). It demonstrates clearly how public servants have far more flexibility in their retirement than most realise.

Damian and Dave were both senior public servants. Damian was a member of the Commonwealth Superannuation Scheme (CSS) and Dave a Super SA member.

Damian decided to retire in July 2010. Following considerable planning and many lengthy discussions (between Damien, Dave and myself) Damian implemented a '54/11' CSS pension strategy. He retained a gross annual (Standard) CSS pension of $47,398, having also taken a commutation of the maximum possible CSS lump sum.

Dave was still a senior state government public servant, and wanted to work for a few more years, although they both intended to take annual overseas holidays. His gross Super SA Lump Sum fund balance in 2010-11 was just under $900,000 (inclusive of Damian's Super SA spouse account, which was established to receive transfers from Dave).

Interim outcomes achieved

Damian immediately saved almost $6,000 pa in personal tax, due to an annual personal super concessional contribution to offset income from his taxable CSS pension. This tax saving was:

- over and above a gross account-based pension (ABP) annual income of $16,360 from his re-invested, retained CSS/*Australian Government Employees Superannuation Trust* lump-sum.
- after payment of all debts (using part of his super lump sums) and;
- in addition to his retained 2010-11 gross annual CSS Defined Benefit Pension of $47,398.

Damian also implemented a 'cash out and re-contribution' strategy, which resulted in his ABP income being 100 per cent tax exempt.

Having been a public servant for quite some time, Dave would now no longer risk exceeding the untaxed cap available under his state government super fund ($1,150,000 in 2010-11). He then proceeded to 'contribution split' each year to a Super SA spouse account established for Damian.

In 2010-11 Damian and Dave had a combined annual net income of approximately $65,000 per annum. This was comfortably higher than their stated need of $60,000, despite each of them making substantial additional super contributions. If required, they also had the ability to tax effectively increase their income, simply by increasing Damian's tax-exempt ABP income drawdown.

2010-2011 financial position

Super & Account Based Pension Balances	
Damian's (100% Tax Free) ABP	$166,000
Damian's NET Super SA Spouse Account	$144,500
Dave's NET Super SA Lump Sum and SSS Accounts	$ 735,013
Total Gross Super & ABP	**$1,045,513**
Annual income	
Damian's gross CSS Pension	$47,398
Less Personal CC to super	-$25,000

Damian's 100% Tax Exempt ABP	$16,360
Dave's gross salary	$121,848
Less Salary Sacrifice to Super SA SSS	-$91,848
Less Personal Tax (Damian)	-$1,134
Less Personal Tax (Dave)	-$2,456
Total combined net income	**$65,168**

Notes:

- Net Super SA balances are based on gross balances less 15 per cent super fund tax accrued on "untaxed components" of Super SA accounts due on rollover.

Maximising salary sacrifices

Damian and Dave were able to optimise their superannuation savings for their retirement, creating a significant legacy for Dave's children and grandchildren.

Due to the 'constitutionally protected' status of Dave's state government Southern State Super (SSS) fund (which means that it is not subject to concessional contribution limits and remains largely unaffected by the July 1, 2017 super changes) he was able to salary sacrifice approximately $92,000 per annum – increasing this figure to more than $113,000 in his final year of employment.

This salary sacrifice strategy had the effect of boosting their combined super balances (despite Damian's APB drawdown) and an initial annual reduction of approximately $31,000 to Dave's annual personal tax bill – with these savings redirected to his super fund.

Final outcomes achieved

Damian's retained CSS basic pension has increased to $51,655 pa. As this standard CSS pension is fully indexed, and as Damian is now over age 60, he is eligible for a 10 per cent CSS tax offset. This equates to an increase of $5,166 in his net annual CSS pension income.

Damian continues to make annual concessional contributions to super to eliminate his personal tax and to grow his super balances. As a result, he pays no personal tax. He does pay approximately $1,500 pa in tax via his super fund on his annual (approximately $10,000 pa) tax-deductible concessional contributions, and he still pays an annual Medicare Levy of approximately $833. This is a result of $2,333 in contributions tax and Medicare Levy on Damian's taxable CSS pension of $51,655 pa for net annual CSS income of $49,322.

As at September 2017, Damian and Dave are now both over 60 years of age, retired and have between them $1,981,000 net in tax-free account-based pensions.

The recommended annual 'contribution split' to Damian's Super SA SSS spouse account meant that Dave did not risk exceeding the 2016-17 Untaxed Plan Cap Threshold of $1,415,000. When combined, however, their gross Super SA untaxed balances were well in excess of this threshold.

This strategy alone saved Dave a once-off lump sum "penalty" tax of approximately $167,530.

October 2016 financial position

Super & Account Based Pension Balances	
Damian's (100% Tax Free Comp) NET ABP	$480,000
Dave's (100% Tax Free Comp) NET ABP	$470,000
Dave's (Taxable Component) NET ABP	$1,031,564
Total Net ABP Balances	**$1,981,564**
Annual income	
Damian's gross CSS Pension	$51,655
Damian's (100% Tax Free Component) ABP	$19,200
Dave's (100% Tax Free Component) ABP	$18,800
Dave's (Taxable Component) ABP	$41,263
Less Damian's Personal Concessional Contribution to super	-$10,000

Less Personal Tax/Medicare Levy (Damian)	-$833
Total combined net income	**$120,085**

Notes:

- ABP income is now 100 per cent tax exempt (regardless of the underlying tax components), as both Damian and Dave are over age 60.
- ABP income is based on the minimum rate of 4 per cent pa applicable to pension recipients aged 60-65.
- Total combined net income is net of Damian's annual personal concessional contributions to super.

A very comfortable retirement income

Due to the flexibility of the recommended strategies, neither Damian nor Dave is affected by the retrospective $1.6 million cap on tax-exempt ABPs, introduced from July 1, 2017.

Based on their current account balances, their combined account-based pensions are required by legislation to pay a minimum annual income of $79,263.

This provides Damian and Dave with a combined annual net retirement income of around $120,000 pa (inclusive of Damian's net CSS pension income and net of his annual concessional contributions to super) and well in excess of their stated $100,000 annual net income objective.

They can draw as much additional tax free ABP income or lumps sums as required, and Damian and Dave intend to assist Dave's children to purchase their own homes by accessing funds in this way.

This 'actual' client case study demonstrates how, with good advice (and despite government meddling in the super system) excellent financial outcomes can and are still being achieved.

Theo Marinis