

## *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
<b>Total Gross Super &amp; ABP</b>	<b>\$1,045,513</b>

#### 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
<b>Total combined net income</b>	<b>\$65,168</b>

**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
<b>Total Net ABP Balances</b>	<b>\$1,981,564</b>

##### 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
<b>Total combined net income</b>	<b>\$120,085</b>

**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.