Media Release No: 72 **9 October 2017**

Can it get any better?

It could be argued that the subject of this media release has taken an adult lifetime to develop; it involves someone I have known since I left school and who is now a senior academic.

As a result of my advice to commute a significant portion of her UniSuper Defined Benefit Pension some years ago, my client will be one of the very few senior academics not to be hit with unexpected additional tax arising from the new Transfer Balance Cap rules (applying to pension benefits over $1.6M or pension income in excess of $100,000 pa) which came into effect as part of super rule changes on 1 July, 2017.

Over time, acting on my recommendations, she implemented a Transition to Retirement strategy, maximised salary sacrifice super contributions (up to $100,000 pa when this was still possible) and split her super lump-sum funds between herself and her husband.

They currently have Account Based Pension (ABP) balances of approximately $1 million and $1.3 million respectively, each with tax free components of 100%.

After the part commutation of her UniSuper Defined Benefit Pension, my client retained a small pension of $20,000 pa. This pension has a Transfer Balance Cap value of $320,000, which, combined with her current ABP of approximately $1 million is below the $1.6m cap, with no additional taxation issues.

As her husband has no other income stream he is similarly unaffected by the Transfer Balance Cap rules.

Based on a UniSuper DB pension of $20,000 pa, plus minimum ABP income payments of $50,000 and $65,000 respectively, my client and her partner currently enjoy minimum tax free annual income of $135,000 from their superannuation – placing them comfortably in the top 4% of retirees in the country in terms of income.

But, as they say in the ads: 'Wait, there's more!"

The couple also have a direct share portfolio and a geared rental property. As they are both now over age pension age, however, they pay no personal tax as their combined ***taxable income*** is less than the $57,948 combined Seniors and Pensioners Tax Offset (SAPTO) threshold.

Any Account Based Pension income growth (over and above their ***TAX EXEMPT*** minimum pension payments) is also tax-free, as their ABPs have 100% tax free components. This also means that their children and grandchildren will inherit tax-free, or they can 'SKI' (Spend the Kids Inheritance) by taking more tax exempt ABP pension income and lump sums, as required.

In addition, my client continues to consult, earning approximately $75,000 pa. On my advice, she continues to salary sacrifice into super the maximum possible each year ($25,000 pa from 1 July 2017).

As a result of structuring their affairs over the last decade and a half, the family paid virtually no personal tax# on annual income of almost $274,000^ pa generated in 2016/17 – which takes them into the top 1% of income earners in retirement in Australia.

#Approximately $5,250 was paid by the super fund on $35,000 salary sacrificed to super. NIL Tax was paid on the tax exempt ABP and Retained UniSuper pensions. Thus, the taxable income of each member of this couple was less than $28,974 (due to negative gearing losses on a rental property).

^ Including estimated tax-free capital growth within the pension funds i.e. $2.3 Million at 7% pa less 5% pa (or $46,000) taken as ABP income. (This NET of ALL ongoing fees including our annual advice fee, super fund admin fee and investment management fee).

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