Media Release No: 73 **9 October 2017**

Public servants can define their own retirement benefits by building in flexibility

Every year thousands of Australian public servants are retiring, 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. Like lemmings, most put their hands up for maximum defined benefit pensions.

But not all. Life 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 established on my advice, to receive transfers from David).

The recommended strategies delivered the following interim outcome:

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:

a) over and above a gross Account Based Pension (ABP) annual income of $16,360 from his re-invested, retained CSS/AGEST lump-sum.
b) after payment of ALL debts (using part of his super lump sums) and;
c) in addition to his retained 2010/11 gross annual CSS Defined Benefit Pension of $47,398.

On my recommendation, Damian also implemented a 'cash out and re-contribution' strategy which resulted in his ABP income being 100% 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 acted on my advice 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 pa, 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.

But that is far from the end of their story…

With planning and careful restructuring, Damian and Dave were able to optimise their superannuation savings for their retirement, and later will be able to leave a significant legacy for Dave's children and grand-children.

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 the 1 July 2017 super changes) he was able to salary sacrifice approximately $92,000 pa – increasing this figure to more than $113,000 pa in his final year of employment.

This salary sacrifice strategy had the effect of boosting their combined super balances (despite Damian's Account Based Pension 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.

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With Dave joining his partner in retirement in September 2016, we have now implemented the second part of their strategy.

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% 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 continue 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 both 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 all those years ago, 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.

Importantly, due to the flexibility of the recommended strategies, neither Damian nor Dave is affected by the retrospective $1.6M cap on tax exempt ABPs, introduced from 1 July 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. This amount also allows for their annual overseas holidays!

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!

Damian & Dave's 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 Net 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% super fund tax accrued on "Untaxed Components" of Super SA accounts due on rollover.

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Their October 2016 (Personal Review) 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% tax exempt (regardless of the underlying tax components) as both Damian & Dave are over age 60.
— ABP income is based on the minimum rate of 4.0% pa applicable to pension recipients aged between 60 – 65.
— Total Combined NET income is NET of Damian's annual personal Concessional Contribution to super.

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For further information, please contact:

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