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Public Servants can Double-Dip after Redundancy

With May's federal budget shaping up as a horror night for Australia's public servants, those who face redundancy may well get the last laugh by being able to 'double dip' under the Public Service Superannuation (PSS) scheme, according to financial strategist and former public servant, Theo Marinis.

"Despite the enormous amount of negative publicity which we will inevitably read, many of the people affected will, after all the emotion of losing their jobs has passed, be significantly better off financially, so long as they get sound financial advice from a qualified planner.

"The fundamental flaw in the PSS redundancy scheme is the 'Goldilocks Principle' – which allows PSS members to choose to take a lump sum or a pension according to what is 'just right' for them.

"Over the last 20 years I have shown dozens of PSS member clients how under their scheme they can take a lump-sum and choose to pay off their house, go overseas on a holiday or buy a boat... and then draw down the pension they want until they are 65 and then 'double dip' by becoming eligible for significant social security pensions as well!

"The sad thing for the federal government is that they lose all this experience from the public service but won't actually save a single dollar – they just delay payment and cause frustration amongst the remaining members of the commonwealth public service as they see their former colleagues spending up and yet having the same take home pay in old age as them – meanwhile the remaining workers are under more work pressure than ever before.

"After a decade working for the ATO, Centrelink and the Insurance & Superannuation Commission before establishing our financial planning business, I feel very close to the PSS members. In fact my wife ***was*** a PSS member too whilst I ***was*** a CSS member!

"As one former colleague, a PSS member, who saw me recently to discuss what financial impact redundancy would have on her commented, 'It will be like a nuclear winter – the survivors will envy the dead," Theo said.

Attached is the case study of three options available to a real life client and her partner (the names have been changed and the strategies are published with permission) to assist other PSS members to more clearly understand the fantastic possibilities available to them.

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Estimated Centrelink Assessment at Retirement
Based on 3 PSS Options, Current Balances and Centrelink Rules

Preliminary PSS retirement option Richard and Mary Van Dyke

The following estimates are based on Mary's 30/10/2013 PSS statement and current (11/2013) Centrelink rates and thresholds as a general guide of the VAN DYKE'S retirement position and options.

NOTE: Mary will be 65 in 2016 however she may retire or be offered a Voluntary Redundancy Package prior to that date. Thus Mary expects to retire sometime between July 2015 and her 65th birthday in 2016. The VAN DYKES require $60,000 pa net combined income in retirement.

HOME	**CENTRELINK EXEMPT**
Bank Account (November 2013)	$ 22,800
Mary's Account Based Pension (ABP) 11/2013 (incl AustralianSuper Sal Sac Account)	$ 135,629
Richard's ABP	$ 179,593
Personal Belongings	$ 10,000
Motor Vehicles	$ 20,000
Current Centrelink Assessment	$ 368,022

PSS OPTION 1: 100% PSS Pension = $41,547 pa CSS Pension Nil Lump Sum

Centrelink Asset Test based on assessable assets of $368,022 above results in a reduction of $133.50 per fortnight ($3,471 pa) in combined age pension. With Clean Energy Allowance and Pension supplements the combined pension payment under the Asset test would be approx. $28,946 pa.

Centrelink Income Test (based on *current* ABP rules)

		pa	
Mary's PSS Pension		$ 41,547	(A)
Deemed Income		$ 573	(B)
ABP Mary	(Min 5% $6,780 – less Centrelink exempt $5,391)	$ 1,389	(C)
ABP Richard	(Nominated $10,776 – less Centrelink exempt $16,815)	NIL	(D)

Total Centrelink Assessed Income (A) + (B) + (C) + (D) = $43,509 pa

Combined Age Pensions (and allowances supplements) payable under the Income Test would be approx. $571.95 per fortnight ($14,870 pa). As this assessment produces a lower result, **Age Pensions would be payable under the Income Test**.

Estimated Cash Flow	**pa**
Combined Age Pensions (Income Test)	$ 14,870
Mary's PSS Pension	$ 41,547
Mary's ABP (Min)	$ 6,780
Richard's ABP (Min)	$ 10,776
Deemed bank account income	$ 573
TOTAL GROSS COMBINED	**$ 74,546**

NB: Mary would be partly liable for tax of approx. $5,000 pa (after allowing for her LITO, SAPTO and 10% PSS Tax offset) and would be required to continue lodging tax returns.

Estimated combined NET income: $69,546 pa ($2,675 per fortnight)

This is well in excess of stated annual combined net income needs of $60,000 ($2,308 per fortnight).

PSS OPTION 2: 100% PSS Lump Sum ($443,743) Nil PSS Pension

Centrelink Asset Test - The PSS Lump Sum benefit (approx. $443,743) is added to other assessable assets (approx. $368,022) increasing their Centrelink Assessable Assets to $811,765. This would result in a combined age pension benefit **reduction** of approx. $20,784 pa ($799 per fortnight).

The combined Age Pension benefit payable would equate to approx. $335.20 per fortnight ($8,715 pa) plus $113.60 per fortnight in allowances and supplements ($2,954 pa)

TOTAL COMBINED AGE PENSIONS (Asset Test): $11,669 pa

Centrelink Income Test (based on *current* ABP rules)

Mary and Richard are NOT currently Income Test affected due to their Centrelink Deductible amounts, and NO Tax will be payable. Further, by nominating 6.4% from Mary's ABP the Van Dykes will achieve their net income needs tax free

Estimated Cash flow	**pa**
Combined Age Pensions (Asset Test)	$ 11,669
Mary's nominated ABP (6.4%)	$ 37,080
Richard's ABP (Min)	$ 10,776
Deemed Bank account income	$ 570
TOTAL GROSS COMBINED	**$ 60,095**

Nil tax is due and NANE ABP / SAPTO / LITO and 10% PSS Tax Offset.

Estimated combined NET Income $60,095 pa ($2,311 per fortnight)

Once again net income is easily achieved.

Mary will no longer need to lodge Tax Returns **BUT** with no PSS pension income they are very reliant on **BOTH** ABPs (NB: there are no estate issues BUT market volatility will prove a concern).

OPTION 3: The 'Goldilocks' Option (50 % PSS Pension / 50% Lump Sum)

PSS retained Pension pa	$ 20,774
PSS Lump Sum	$221,871

Centrelink Asset Test

Under this scenario Richard and Mary's Centrelink Assessable Assets will total $589,893 ($368,022 + PSS Lump sum $221,871) resulting in a combined Age Pension reduction of approx. $12,124 pa; or a **combined age pension benefit of approx $20,291 pa ($780.40 per fortnight)**

Centrelink Income Test (based on *current* ABP rules)

	pa	
Mary's PSS Pension	$20,774	(A)
Deemed Bank account income	$ 570	(B)
ABP Mary (Min 5% $17,875 – less Centrelink exempt $16,536)	$ 1,339	(C)
ABP Richard (Min $10,776 – less Centrelink exempt $16,815)	NIL	(D)

Total Centrelink Assessed Income (A) + (B) + (C) + (D) = $22,683 pa

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As the income test produces a higher result, **age pension income would be payable under the Asset test.**

Estimated Cash flow	**pa**
Combined Age Pensions (Income Test)	$ 20,084
Mary's PSS Pension	$ 20,774
Mary's ABP (Min)	$ 17,875
Richard's ABP (Min)	$ 10,776
Deemed bank account income	$ 570
TOTAL GROSS COMBINED	**$ 70,079**

Nil Tax due to NANE ABP / SAPTO / LITO and PSS 10% Tax Offset

Estimated combined NET Income $70,079 pa ($2,695 per fortnight)

CONCLUSION

Whichever option is chosen, Mary and Richard will achieve their income needs.

For balance and diversity, I believe that **Option 3** with the 50/50 Lump Sum vs Pension strategy provides the optimal solution.

Option 1 provides less cash flow, less accessible lump sums, less income stream diversification and will require Mary to always lodge returns. This in my view is the poorest option. Finally, if Richard survives Mary, his remaining 'Reversionary' PSS pension will drop by approximately $13,710 pa!

Option 2 provides great capital (eg: which may be ultimately payable to the estate) but with too much market exposure.

Option 3 results in **$40,858 pa** or 58% of cash flow provided via Age Pension and PSS Pension benefits. This option produces the most favourable outcome for Mary and Richard, providing significantly **more income** than their net cash flow needs. In addition they will have access to significant capital (approx. $537,293) via their respective Account Based Pension funds. By drawing the minimum Account Based Pension income, plus a combination of part Age Pension and part PSS Pension income, Mary and Richard have achieved significant income stream diversification and taxable income low enough (despite excellent gross cash flow) not to pay tax, or need to lodge a tax return ever again!

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