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An example of creating a 'Financial Magic Pudding'!

Unlike many of their fellow retirees, *Tim and Jane do not worry about buying a cup of coffee, the cost of going out for a meal, or how much petrol costs. They are long-term clients of Marinis Financial Group and financially stress-free!

Tim noted recently that their retirement fund balances are about the same today as when he left work, and yet he and Jane have drawn down hundreds of thousands of dollars to live on since his retirement approximately 15 years ago.

When Tim 'took a package' and retired from his government role, his gross income was around $50,000p.a. Today, 15 years later and in his mid-70s, Tim takes home the equivalent of twice that amount, thanks to some good financial planning advice.

Like so many mums, Jane contributed financially to the family with a part-time job when the children were sufficiently grown up. Nevertheless she had very little in the way of super, despite full time work in a bank for 10 years as a young woman – consequently work from which she was forced to resign (due to the employer policies of the day) following her marriage to Tim.

Jane was aware of the challenges of finding the right adviser, thanks to the influence of her uncle who was a life insurance agent. She also knew John Thompson, a financial adviser who had worked in the same building. It was then that Jane and Tim started informally discussing retirement with John which was five years or so before Tim was 60.

Over time, John introduced Tim and Jane to his successor, Theo Marinis, who provided them with a retirement strategy which would see Tim withdraw (or commute) 55% of his Defined Benefit Super payout as a lump-sum to invest, and take the remaining benefit as a pension. They were initially reluctant to embark on this strategy, which was contrary to the advice provided by the Financial Information Services (FIS) officer employed by Centrelink to provide retirement funding advice.

As is his practice with all of his Defined Benefit Super clients, Theo explained to Tim and Jane that whilst the prevailing paradigm (or urban myth) is NOT to cash out and commute a Defined Benefit pension, this advice is not usually in their best interests. This is because:

- Inflation and tax will effectively 'eat' your benefits if you choose the100% Defined Benefit pension path, and
- Locking in 100% in one investment source is proven to be a flawed strategy - it totally ignores the first rule of investing – **always diversify**.

Most Defined Benefit pensions are indexed, i.e. increasing with the Consumer Price Index (CPI) rather than with Average Weekly Ordinary Time Earnings (AWOTE). Some Defined Benefit pensions, however, are only partially indexed, or in some cases, NOT indexed at all!

Thus the purchasing power of Defined Benefit pensions diminishes in the long term, and this is why the federal government in 2014 tried to change the rate of indexation on Age Pensions from AWOTE to CPI, as a measure to reduce spending over time. Due to the large community push back on this proposal, however, they backtracked and did NOT proceed with this budget proposal.

While it seems intuitive to many people to opt for the 'safe' government backed pension option, most people forget that around 70% - 80% of the income received during retirement from a superannuation lump sum is from the earnings on the original lump sum.

Theo uses the analogy that your super is like a tree and in retirement you live off its fruit – in other words, the earnings.

He also provides the following additional reasons why the 100% Defined Benefit pension option can often be the wrong choice:

- On the death of the pensioner, Defined Benefit pensions usually only provide 2/3 of the original pension to a surviving partner, bringing a significant drop in income, in addition to the grief associated with losing a spouse.
- On the death of both partners there is no money left for children or the estate;
- Defined Benefit pensions do not allow access to lump sums to upgrade cars, pay for holidays, to help your children and / or grandchildren, or for emergencies.

- Locking in to a 100% Defined Benefit pension affords no flexibility if or when future governments change rules around super and pensions. (Unfortunately, we are already seeing this happening in Australia, and overseas in Greece, as experienced by Theo's cousins who recently suffered a 40% pension cut at the stroke of a government pen)!

Accepting Theo's recommendations have effectively provided Tim and Jane with a 'magic pudding' of retirement funding, the position in which everyone wants to be. It enables them to live comfortably, without anxiety about lifestyle or discretionary spending decisions, with the knowledge that they still retain excellent capital reserves.

It has allowed them to enjoy Pacific and European river cruises, to travel around Australia and holiday in the UK. If they wish, they can choose to replace their car every 5 – 6 years, and they are able see plenty of their grandchildren. In fact, they could actually give themselves a 'pay-rise', without greatly affecting their retirement balance.

As a result of their investment strategy (which remains conservative) Tim and Jane have averaged around 7.5% p.a. return on their investment lump sum. Had they **not** commuted 55% of Tim's Defined Benefit pension, Tim and Jane's super would have only increased by a CPI factor of around 3.0% p.a.

In addition, if they had simply kept 100% of Tim's employer based Defined Benefit pension, that pension would have expired on the death of the last surviving partner. Now, much to their surprise, Tim and Jane will actually have a significant sum to pass to their estate – unless they get even more serious about their travel hobby!

Today the income flow to their bank account is made up of three elements:

- Investment income / drawings from the account based pensions purchased with Tim's 55% super lump-sum
- Tim's Defined Benefit pension (45% of the Government pension benefit retained)
- Part Centrelink Age Pension

Their income is NOT taxable – despite having an annual income equivalent to $100,000, Tim and Jane are no longer required to complete tax returns!

Jane says a lot of her retired friends constantly worry about their finances, and many ask "why would you pay a financial adviser all that money?" However, they feel very comfortable with the trust they have built up with Theo and the rest of the Marinis team. Tim says he never stays awake at night worrying about their finances. He points out that when the children were young he was doing three jobs; he designed his own house, concreted the paths and sanded the floors himself to save money, and Jane used to wonder how they were going to be able to afford food after paying all the bills.

Now, thanks to some great financial planning advice, Tim and Jane don't need to worry about their income.

**** Tim and Jane are not their real names (their names and details are protected for their privacy) but they are real clients of Marinis Financial Group. We thank them very warmly for sharing their story so that others may better understand financial planning.***

PLEASE REFER TO THE TABLES ON THE FOLLOWING PAGES WHICH OUTLINE ALL RESPECTIVE FIGURES.

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Disclaimer

The information in this article reflects Theo Marinis' understanding of existing legislation, proposed legislation, rulings etc. as at the date of issue. While it is believed the information is accurate and reliable, this is not guaranteed in any way. The information is not, nor is it intended to be comprehensive or a substitute for professional advice on specific circumstances.

The information given in this article is of a general nature and has not taken into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision on the basis of the advice above, a prospective investor needs to consider, with or without the assistance of a professional adviser whether the advice is appropriate in the light of their particular investment needs, objectives and financial circumstances.

TIM AND JANE CURRENT POSITION AT REVIEW NOVEMBER 2015		
Tim's 45% retained Super SA Pension	$23,738	
Tim's Part Centrelink Age Pension	$10,810	Per Centrelink report 04/11/2015
Jane's Part Centrelink Age Pension	$10,810	Per Centrelink report 04/11/2015
Jane's Minimum Account Based Pension (ABP)	$ 6,230	**Tax Exempt**
Jane's Term Allocated Pension (TAP)	$18,200	**Tax Exempt**
Bank Interest - Combined	$ 1,640	
TOTAL GROSS COMBINED	**$71,428**	$1,373.62 per week
Despite this excellent combined Gross income neither Tim nor Jane are taxable, due to their individual TAXABLE income/s as outlined below		
JANE'S TAXABLE INCOME		
Part Centrelink Age Pension	$10,810	
Bank Interest - Half Share	$ 820	
TOTAL - JANE **(Excluding Tax Exempt ABP and TAP income)**	**$11,630**	**Jane is NOT taxable due to the SAPTO threshold**
TIM'S TAXABLE INCOME		
Super SA Pension	$23,738	
Part Centrelink Age Pension	$10,810	
Bank Interest - Half Share	$ 820	
TOTAL - TIM	**$35,368**	**Tim is NOT taxable due to the SAPTO threshold and his Super SA pension tax offset**
Combined Net Income	**$71,428**	
Combined Age Pension	$21,620	
Combined Tax Payable	**Nil**	
Accessible ABP	$125,358	4/11/2015
TAP Payable to Estate	**$238,223**	**4/11/2015**

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TIM AND JANE CURRENT POSITION with NO LUMP SUM COMMUTATION		
Tim's 100% retained Super SA Pension	$52,751	
Tim's Part Centrelink Age Pension	$ 5,481	Per Calculations as follows
Jane's Part Centrelink Age Pension	$ 5,481	Per Calculations as follows
Jane's Minimum Account Based Pension (ABP)	$ 6,230	
Jane's Term Allocated Pension (TAP)	Nil	**No TAP as NO Lump Sum Commutation**
Bank Interest - Combined	$ 1,640	
TOTAL GROSS COMBINED	**$71,583**	$1,376.60 per week
JANE'S TAXABLE INCOME		
Jane's Part Centrelink Age Pension	$ 5,481	
Bank Interest - Half Share	$ 820	
TOTAL - JANE (Excluding Tax Exempt ABP income)	**$6,301**	**Jane is NOT taxable due to the SAPTO threshold**
TIM'S TAXABLE INCOME		
Tim's 100% retained Super SA Pension	$52,751	
Tim's Part Centrelink Age Pension	$ 5,481	
Bank Interest - Half Share	$ 820	
TOTAL - TIM	**$59,052**	**Tim's net Tax Payable is $4,768 pa**
Combined Net Income	**$66,815**	
Combined Age Pension	$10,962	
Combined Tax Payable	**$ 4,768**	
Accessible ABP	$125,358	4/11/2015
TAP Payable to Estate	**Nil**	4/11/2015

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