Money Mechanics
Strategic Financial Advice

Understanding Public Sector Superannuation

Create Wealth through Understanding

www.moneymechanics.com.au

About Us

Scott Malcolm is director and principal consultant of Money Mechanics, a specialist Financial Life Planning firm in the areas of Superannuation, Wealth Creation and Education services.

Our life planning process brings together technical expertise and the human touch to create a solution tailored towards your overall life goals. We choose to not take upfront or ongoing commission on financial products, to provide our clients with a clear fixed fee for advice structure that isn't tied to any product providers.

Money Mechanics believes in the value of education and financial literacy. There is an array of jargon in the financial world and we aim to demystify this through conducting regular education programs.

Scott Malcolm B.Comm | SSA® | RLP | Adv Dip FS (FP) |
Authorised Representative (No. 262368)
Director and Financial Strategist

Contact advice@moneymechanics.com.au

Phone 1300 772 643

Website moneymechanics.com.au

Notice: While we have checked everything within this booklet, no person should rely on the contents without first making their own inquiries or obtaining advice from a qualified person regarding their personal circumstances

The Financial Planning Process

The following diagram represents the financial planning process and should be viewed as a fluid approach as things change in your life.

The following areas are explored when you look at your financial planning needs including:

Your Goals for Life – The who, what, where and when? The why's are your values.

Your Cash Matters – What you earn and where it goes. Without surplus resources, you cannot successfully invest.

The next areas may have financial product consequences, your product strategy will depend on what you are trying to achieve, your age, and knowledge and understanding of investments. What may seem a risk to one person is an opportunity to another.

Your Wealth Creation Structures and Strategy – These include PAYG, Salary Sacrifice, Company, Family Trust, Partnership, Borrowed Funds.

Your Superannuation – Your ability to sustain a lifestyle without the need to work – defined benefits, accumulation, self managed super and retail or industry super funds can be a product solution.

Your Back Up Plan – These are your estate planning and protection strategies such as insurance, wills, power of attorney and testamentary trusts which can be product solutions.

What is Superannuation?

Definition*:*

Superannuation is a taxation strategy to provide a long term or lifetime retirement investment solution. For most Australians, superannuation combined with the family home, makes up the largest part of their assets. Yet, how much time do we spend researching the purchase of our home compared to that of investment in superannuation?

If you haven't spent time getting to know your Super, and understanding your benefits so you can enjoy retirement with peace of mind.

Note, your superannuation is a separate trust and sits outside of your estate plan and wills so you need to ensure you have your benefit nominations in place.

Some questions to think about when it comes to your current superannuation arrangements:

- What do you know about your current super?
- How is it invested?
- Do you know how much superannuation you need to fund your retirement?
- Do you know how tax works in superannuation and how to work with this?

Some golden rules:

1. Understand the fund you are in – Investments, Fees, and benefit options.

2. Be realistic about your retirement lifestyle requirements. What do you need to 'be comfortable'?

3. Your spending habits will change in retirement as you have more 'time'. Make sure you plan for this.

4. Don't leave your superannuation planning too late.

Public Sector Superannuation Schemes (PSS)

The Public Sector Superannuation Scheme (PSS) opened to new customers in 1990 and replaced the (CSS). The scheme closed to new customers in 2005 and was replaced by Public Sector Accumulation Plan (which is a standard accumulation scheme).

Public Sector Superannuation Schemes is a defined benefit scheme that is restricted to government employees and some older company funds such as BHP, Commonwealth Bank and Qantas.

The benefit is based on your contributions paid into the scheme during your employment and your retirement age. PSS benefits are made up of the following three components:

1. **Member component** - contributions you have paid, plus fund earnings.
2. **Productivity component** - the fortnightly superannuation productivity contribution made by your employer on your behalf, plus fund earnings.
3. **Employer-financed component** - determined when leave the scheme.

The amount of the employer component is the balance when your member and productivity components are deducted from the total lump sum benefit (calculated using the Accrued Benefit Multiple). The defined benefit entitlement is calculated based on your **Benefit Multiple** (based on contributions made) and your **Final Average Salary (FAS)**. The benefit is a lump sum that can then be converted to your percentage choice of CPI Indexed Pension.

Your benefit multiple is calculated over your years of contributory membership, depending on your years of membership and amount you are contributing. This can reach a maximum of 10 times over your employment history. It is best to reach this at a point where you retire, as you increase the amount funded by the government.

The benefit multiple is calculated based on the following contribution rates:

	Less than 10 years		More than 10 years	
Employee	Employer	Total	Employer	Total
2%	13%	15%	13%	15%
3%	14%	17%	14%	17%
4%	15%	19%	15%	19%
5%	16%	21%	16%	21%
6%	16%	22%	**17%**	23%
7%	16%	23%	**18%**	25%
8%	16%	24%	**19%**	27%
9%	16%	25%	**20%**	29%
10%	16%	26%	**21%**	31%

To calculate your lump sum estimate you need to work out your years of service. If you have worked full time and contributed 5% to the PSS for 20 years your benefit multiple will be estimated as **0.21** multiplied by **20** (years)

Your benefit multiple is then multiplied by your **(FAS)** so for Harry having a Final

Average Salary of **$50,000** his benefit would be estimated as: **FAS** times **Benefit Multiple** = **Lump Sum Amount**

The pension factors for the PSS from age 55 are as follows:

Age	Pension Factor
55	12
56	11.8
57	11.6
58	11.4
59	11.2
60	11
61	10.8
62	10.6
63	10.4
64	10.2
65	10

For Harry at age 55, if he were to convert his lump sum into a pension the following calculation would apply:

Lump Sum Amount divided by **Pension Factor** = **Pension Amount**

Commonwealth Superannuation Scheme (CSS)

The Commonwealth Superannuation Scheme (CSS) opened to new customers in 1976 and closed in 1990.

The CSS is a hybrid defined benefit scheme, which provides a defined benefit income stream and accumulated lump sum benefit at retirement. Your CSS benefit is made up of three components:

Member component – your contributions plus fund earnings

Employer-financed component – this is worked out when you leave the CSS

P**roductivity component** – a fortnightly contribution made by your employer plus fund earnings.

Depending on how you leave the CSS you may take your benefit as a CPI-indexed and a lump sum, a combination of a CPI-index pension and a non-indexed pension and a lump sum, or a combination of a CPI-indexed pension and a non-indexed pension.

Technical Point:

I am often asked if it is better to be paying in 5% or 10% into the CSS, all contributions that you make to the scheme are treated as non-concessional contributions and come from after tax money. The first 5% that you put into the scheme goes to increase your pension benefit and the second 5% goes to increase your lump sum benefit. You could look to other strategies to enhance your income and tax position while still having the same cash contributions.

There are two parts of the CSS.; The first being a Defined Benefit entitlement (CPI Indexed Pension) which has the option of a **Deferred Benefit Option** (54 and 11 month option) or **Age Retirement option** (preservation age onwards). It should be noted that you could access the **Deferred Benefit Option** after 54 and 11 months under redundancy terms.

The second part is an accumulation benefit that can be accessed as a **lump sum** or used to purchase a **non-indexed pension** benefit or a mix of both lump sum and non-indexed pension.

The three important elements in calculating your pension are **the years and days of contributory service** and are slightly different if you are a pre 1 July 1976 or Post 30 June 1976 member. **Your Age at exit.** Exit age between 60 and 65 (discount @ 2% each year of part of). Exit age under 60 (discount @ 3% each year or part of). And **Final Salary**, this includes your actual final salary (not an average) and includes any previous salary when on higher duties or salary at former higher levels.

How to calculate your **age retirement pension**:

The Facts: Harry (Pre 76 Service Period) Age 55, commenced 30/6/1976 Years of service 25 and 9 months Final Salary $50,000	Larry (Post 76 Service Period) Age 55, commenced 1/7/1976 Years of service 25 and 9 months Final Salary $50,000
1. Contributory Service Period: Convert to days = 274 days First 20 years = 20 x 2.5% = 50% Next 5.75 years don't count. **Total = 50%**	**1. Contributory Service Period** Convert to days = 273 days First 20 years = 20 x 2% = 40% Next 5.75 years = 5.75 *1% = 5.75% **Total 45.75%**
2. Discount Factor (retirement at 55) Age 60 to 65 = 5 years x 2% = 10% Age 55 to 60 = 5 years x 3% = 15% Total Discount = 25%	**2. Discount Factor (retirement at 55)** Age 60 to 65 = 5 years x 2% = 10% Age 55 to 60 = 5 years x 3% = 15% Total Discount = 25%
Pension % = 50% x (1-25%) = **37.50%** **$50,000 X 37.5% = $18,750**	Pension % = 45.75% x (1-25%) = **34.31%** **$50,000 X 34.31% = $17,156**

How to calculate your deferred benefit pension:

Your deferred pension is expressed as a percentage of accumulated basic contributions and interest at the time you take your benefit (after preservation age). Generally, the **deferred benefit option** is compared at age 55, due to the ability to preserve the benefits prior to your 55th birthday then take the pension benefit after that date. The pension factor at age 55 is **23.13%** of your basic contributions and interest over your membership. Between 55 and 60 the pension factor increases by 0.374% and then from age 60 to 65 increases by 0.5%. After age 55, the only terms you can access with the deferred benefit, are if you have already preserved your benefit or are entitled to a redundancy.

For example, if Harry had $100,000 of accumulated basic contributions and interest at age 55 this would be multiplied by **23.13%** to provide a pension estimate of **$23,130**. This is much better than the $18,750 he would be offered as an age pension.

Insurance Benefits in the Public Sector Schemes

It is important to note that both the CSS and PSS have insurance and death benefit provisions for members.

As a contributing member your surviving partner is entitled to 67% of your pension benefit as a minimum and this increases with each dependent child. It is important to get your insurance numbers done to ensure you have enough overall protection in place in the event of death or disability.

With the CSS, it depends on when you joined the scheme and is determined on the same factors for the calculation of your age retirement pension further details can be found at the Comsuper website www.css.gov.au.

With the PSS, insurance cover depends on your level of contributions and your age at time of death or disablement. Your benefit multiple for insurance purposes is considered as though you worked until age 60 so you are provided with prospective membership.

It is important to review your insurance entitlement in the context of your overall plan. This ensures you have adequate cover to achieve your outcomes should anything happen to you or your partner.

Further Resources

Government Agencies

Australian Securities and Investment Commission (ASIC)
Consumer protection regulator for financial services.
Phone: 1300 300 630 Web: www.moneysmart.gov.au

Australian Taxation Office (ATO)
Can provide information on taxation and superannuation matters.
Personal Tax: 13 28 61 Business: 13 28 66
Superannuation: 13 10 20 Super Seeker (lost super): 13 28 65
Web: www.ato.gov.au

Commonwealth Super Corporation (CSC)
Can provide information for CSC Defined Benefit Members and superannuation matters.
Phone: Web: https://www.csc.gov.au/

Centrelink
Provides information on various government payments for students, unemployed and retirees.

Employment services 13 28 50	Youth and Students 13 24 90
Retirement services 13 23 00	Financial Information services 13 63 57
Web: www.centrelink.gov.au	

Financial Counselling
The following contacts provide a financial counselling service, or can refer you to an appropriate service in your state or territory. These services are free and confidential.

ACT	Care Financial Counselling Service	02 6257 1788
NSW	Credit and Debt Hotline	1800 808 488
NT	Anglicare (Darwin)	08 8985 0000
QLD	Financial Counsellors Association	07 3321 3192
SA	Unitingcare Wesley Adelaide Inc	08 8202 5180
TAS	Anglicare Financial Counselling	1800 243 232
VIC	Financial and Consumer Rights	1800 134 139
WA	Financial Counsellors Resources	08 9221 9411

Superannuation and Retirement

National Information centre on retirement investments (NICRI)
Provides free information for people planning to retire or those facing redundancy.
Phone: 1800 020 110 Web: www.nicri.org.au

Superannuation Complaints Service (Australian Financial Complaints Authority)
Deals with complaints about superannuation services and annuity providers.
Phone: 1300 780 808 Web: https://afca.org.au/

Financial Products and Services
Financial Planning Association (FPA)
Find a financial planner in your area, some educational brochures.
Phone: 1800 626 393 Web: www.fpa.asn.au

Self Managed Super Fund Professional Association (SPAA)
Find a specialist SMSF adviser in your area.
Phone: (08) 8212 5999 Web: https://www.smsfassociation.com/

Australian Securities Exchange (ASX)
Provides share market information and investor education.
Phone: 1300 300 279 Web: www.asx.com.au

CPA Australia
Represents both accountants and licensed financial planners.
Phone: 1300 737 373 Web: www.cpaaustralia.com.au

Australian Financial Complaints Authority
Provides accessible, fair and independent dispute resolution.
Phone: 1300 780 808 Web: https://afca.org.au/

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