Using your APSS defined benefit to transition to retirement

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If you currently have an APSS defined benefit, it generally can't be accessed until you leave employment with Australia Post[1] (or the associated employer you're working for).

If, however, you are eligible to transition to retirement using a Super Savings Transition to Retirement Income account, then you may be able to access some of your defined benefit early. If you do this, it's very important to understand how it will impact your defined benefit when it is eventually payable to you. Naturally, the amount that you take early will be deducted (offset) from your ultimate defined benefit payment, but interest is also applied. This means you 'owe' more than just the amount of defined benefit you take early. Think of it like a loan account secured against a house, except the 'house' in this case in your defined benefit.

[1] Defined benefit members over age 65 who are still working can also access a Retirement income account using their accrued DB entitlement. See the Super Savings – Corporate Defined Benefit Handbook for APSS available at **art.com.au/apss**

This factsheet is relevant to you if you are:

- entitled to a defined benefit, and
- using your APSS defined benefit to transition to retirement via a Super Savings Transition to Retirement Income account (or considering this).

Read it to better understand what happens if/when you tap into your defined benefit early, and the associated risks.

You should read this fact sheet together with the Super Savings – Corporate Defined Benefit Handbook for APSS available at **art.com.au/apss**, or call us on **13 11 84**.

Introducing your 'Offset account'

An Offset account is automatically opened for you when you access part of your defined benefit early. Think of it as a loan account, which keeps a tab of what you owe against any money taken early from your defined benefit.

Your 'loan' is initially the amount accessed early before you actually become entitled to receive your defined benefit. The maximum amount you are permitted to access, on one occasion in any financial year, is 50% of the current value of your defined benefit (less any existing Offset account balances). As with any loan, there is then interest payable, which gets added to the Offset account balance. The applicable interest rate is the investment return earned on the assets that support your defined benefits. As of the date of this factsheet, this variable rate is currently expected to be, on average, around 3.5% p.a. going forward, but it could be higher or lower than that. In the past, when those assets held in the APSS to pay defined benefits were targeting a higher return, the rate was also higher. Remember, this interest compounds.

It's very important to understand the effect of this compounding interest. Don't assume that the final defined benefit payable will be reduced only by the amount you've accessed early – it will be a combination of that amount plus the compounding interest. To demonstrate, let's look at an example.

Example – How an Offset account might work

Sam, a full-time employee of Australia Post entitled to a 14.3% APSS Defined Benefit (i.e. he is a Category A member), has reached age 60 today and expects to retire in six years' time.

Today, Sam has a salary of $70,000 and is entitled to a defined benefit of $200,000, projected to grow to $304,156 in six years' time. Sam had no Additional Accumulation account.

Sam has heard that his defined benefit can be accessed in certain circumstances before it is ordinarily payable, including as part of something called a 'transition to retirement' (TTR) strategy. In the APSS plan with Australian Retirement Trust, a TTR strategy involves drawing down super through a Super Savings Transition to Retirement Income account in a period before retirement, but after reaching age 60.

Sam reviews the Super Savings – Corporate Defined Benefit Handbook for APSS and then completes the **Income account request form** (both available at **art.com.au/apss**) and requests early access to $120,000 from today's $200,000 defined benefit to commence the TTR strategy. When reading the defined benefit Handbook however, Sam unfortunately skipped over an important part, which explains that amount is too high. The APSS plan Benefit Deed prohibits members who are still working

Last updated: July 2024

from taking too much of their defined benefit. The maximum a member is allowed to access early on one occasion in any given financial year is 50% of the current value of their defined benefit (less any existing Offset account balance). In Sam's case, this is $100,000.

Sam takes $100,000 from the defined benefit. This immediately triggers the creation of an Offset account with an opening balance of $100,000. This Offset account balance attracts interest at the investment return earned on the assets that support the defined benefits.

Let's assume a 3.5% p.a. average annual compounded interest rate applies. In six years' time, Sam's original $100,000 Offset account balance will have increased, with the interest applied, to $122,926. Over the six years, Sam's defined benefit entitlement has also grown to an assumed $304,156. Sam's defined benefit less the Offset account would be $181,230:

$304,156 - $122,926 = $181,230

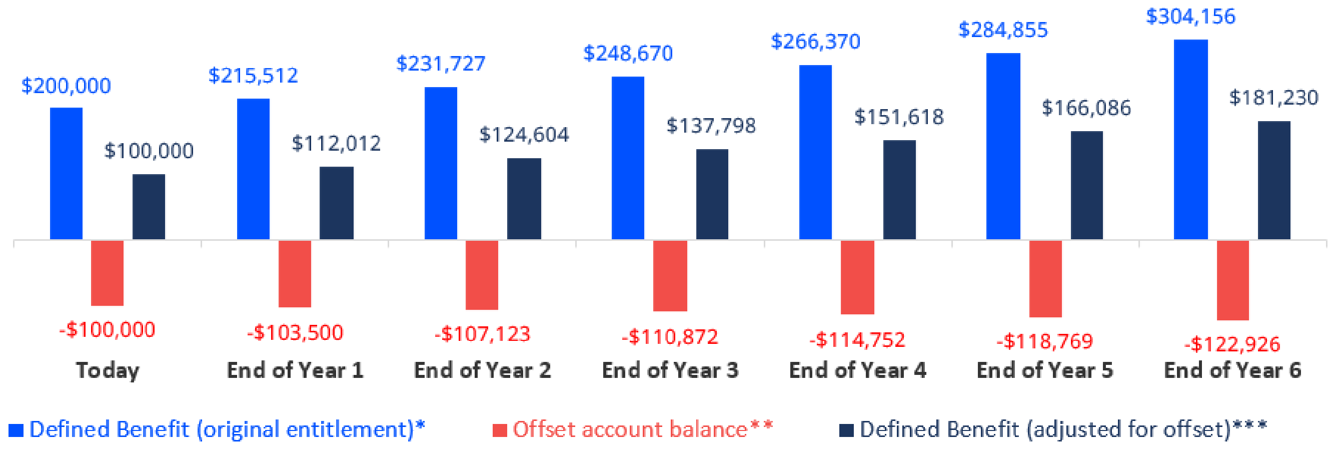
Importantly, it is not $304,156 minus the original $100,000 as this would not factor in the interest accrued on the Offset account over the six years.

Although Sam has reduced defined benefit payable at the end of year 6 by taking part of the defined benefit early, there could still be money remaining in Sam's Transition to Retirement Income account, depending on the investment returns credited to that account as a result of the investment choice(s) Sam made; and the amount of pension payments made to Sam over the six-year period.

Important information

You should consider getting advice from a qualified financial adviser before accessing your defined benefit. For more details on the advice options available at Australian Retirement Trust, please see the last page of this factsheet.

Example - How an Offset account works (continued)



* Assumes a current salary of $70,000, salary growth of 2.75% p.a., and the member is a Category A (14.3%) member working full time.

** Assumes a 3.5% p.a. average annual compounded intertest rate is applied to the Offset account balance. This could be higher or lower, but is expected to be around 3.5% p.a. going forward over the longer term, based on the June 2022 mix of assets. If you already have an Offset account that was opened years ago, the interest rate that has been applied is higher. If 'Today' in the above chart was 1 May 2015, and the 'End of Year 6' was 30 April 2021, then the defined benefit (less the Offset account) would be $162,265 and not $181,230 (based on a compound crediting rate of 6.0% for the six years to 30 April 2021).

*** This is simply the Offset account balance deducted from the original defined benefit that would apply if nothing was accessed early. As you can see, compounding interest applied to the initial $100,000 Offset account balance means that you can't simply deduct $100,000 from the ultimate benefit that will be payable. In this case, at the end of Year 6, the $100,000 initially offset against the defined benefit increases to $122,926 offset against the defined benefit at that time.

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Important information

Once you begin accessing your defined benefit, you can't then continue using up 50% of the defined benefit entitlement you would otherwise have had; only 50% of your remaining defined benefit less your Offset account.

Other members with Offset accounts

Offset accounts also are opened for members who have successfully applied to release part of their defined benefit early on compassionate grounds, including under the COVID-19 early release provisions or due to severe financial hardship. These members, however, generally access smaller amounts – around $10,000 in cases of financial hardship; up to $20,000 (in total) under the COVID-19 early release measures, or typically up to $30,000 if accessing a defined benefit early on other compassionate grounds. While these amounts are small, they can be more than 50% of your defined benefit, so it's important to understand the effect of the compounding interest set out in the previous example.

Before you apply for early release of your super, you should evaluate other ways of obtaining financial relief that will not reduce the money that you will want to live on in your retirement – for example, accessing government benefits you may now be eligible for. We recommend that you seek financial advice. See below for more details.

Family Law offsets

Then there are members whose defined benefit is subject to a Court Order or registered Family Law agreement that requires the member to split their super with a former spouse or partner. These members will also have an Offset account where the amount taken early to create the opening balance is made up of the amount allocated to a former spouse or partner in accordance with the applicable Court Order or registered Family Law agreement.

Surcharge Tax offsets

Finally, there are surcharge tax debt offsets. These are no longer created because surcharge tax is no longer in force. If you are one of the relatively few members who has a surcharge tax account, it was opened before 1 July 2005, when surcharge tax was in force, as a result of the APSS having to pay a surcharge debt to the Australian Tax Office (ATO) on your behalf.

We recommend you seek financial advice before accessing your defined benefit

Before you access your defined benefit, we recommend you speak to your adviser. If you don't have a personal financial adviser, Australian Retirement Trust has qualified financial advisers[2] who can help you over the phone with simple advice about your Super Savings account. This service is included in your membership. If the advice you need is more complex or comprehensive in nature, we may recommend you see an accredited external financial adviser[3]. Advice of this nature may incur a fee. You can find out more about financial advice options at **art.com.au/advice/options**

[2] Employees in the Australian Retirement Trust group provide advice to members and employers as representatives of Sunsuper Financial Services Pty Ltd (ABN 50 087 154 818 AFSL No. 227867) (SFS), that is wholly owned by the Trustee as an asset of Australian Retirement Trust. SFS is a separate legal entity responsible for the financial services it provides. Eligibility conditions apply. Refer to the Financial Services Guide at **art.com.au/fsg** for more information.
[3] The Trustee has established a panel of accredited external financial advisers who are not employees of the Australian Retirement Trust group. The Trustee is not responsible for the advice provided by these advisers and does not receive or pay any referral fees. These advisers will explain to you how their advice fees are determined.

We're here to help

For more information, visit **art.com.au/apss** or contact us on **13 11 84** between 8:00am and 7:30pm AEST, Monday to Friday.

Last updated: July 2024