July 2020

Fact Sheet

Using your APSS Defined Benefit to transition to retirement (Offset Accounts)

If you currently have an APSS Defined Benefit, it generally cannot be accessed until you cease employment with Australia Post (or the Associated Employer you're working for). If, however, you are eligible to transition to retirement using an APSS Pension, 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 is your Defined Benefit.

This fact sheet is relevant only if you are:

- **entitled to an APSS Defined Benefit, and**
- **using your APSS Defined Benefit to transition to retirement via an APSS Pension (or considering this).**

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

You should read this fact sheet together with the Product Disclosure Statement (PDS) titled *Your APSS Pension*, particularly the part about 'Using your Defined Benefit to set up your account' in the section on 'How an APSS Pension works.' This PDS can be downloaded at **apss.com.au** in the 'Product disclosure' section under 'Publications & Forms' in the main menu, or call **1300 360 373** and we'll send you a copy.

This fact sheet is not relevant if you are an APSS Spouse or Rollover member, or an APSS Pension member not transitioning to retirement and accessing part of your APSS Defined Benefit entitlement.

Introducing your 'other offset account'

An APSS 'other' 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 APSS Defined Benefit.

Your 'loan' is initially the amount accessed early before you actually become entitled to receive your Defined Benefit. As at the date of this fact sheet, 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 accounts). As with any loan, there is then interest payable, which gets added to that opening offset account balance.

The applicable interest rate is the investment return (i.e. crediting rate) earned on the assets held in the APSS to pay Defined Benefits. This variable rate is currently expected to be, on average, around 4.0% 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; for example, 6.4% p.a. on average over the six years to 30 April 2020. 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 both that amount **plus** the compounding interest. To demonstrate, let's look at an example over the page.

Example – How an other offset account might work

Sam, a full-time employee of Australia Post entitled to a 14.3% APSS Defined Benefit, has reached preservation age today and expects to retire in six years' time. Today, Sam has a salary of $70,000 and is entitled to an APSS Defined Benefit of $200,000, projected to grow to $304,156 in six years' time. Sam has no APSS Member Savings.

Sam has heard that APSS Defined Benefits can be accessed in certain circumstances before they are ordinarily payable, including as part of something called a 'transition to retirement' (TTR) strategy. In the APSS, a TTR strategy involves drawing down super through an APSS Pension in a period before retirement, but after reaching preservation age.

Sam completes the APSS Pension application form in the latest *Your APSS Pension* PDS, and requests early access to $120,000 from today's $200,000 Defined Benefit to commence the TTR strategy. When reading the *Your APSS Pension* PDS however, Sam unfortunately skipped over an important part, which explains that amount is too high. You see, APSS Rules prohibit members who are still working from taking too much of their Defined Benefit. As at the date of this fact sheet, 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 accounts). In Sam's case, this is $100,000.

Sam could unlock another $20,000, but not until the end of Year 5, by starting a second Pension account as explained on page 4.

So Sam takes $100,000 from the Defined Benefit. This immediately triggers the creation of an APSS 'other' offset account with an opening balance of $100,000. This offset account balance starts attracting interest at the rate applicable to 'other' offset accounts.

Let's assume a 4.0% 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 $126,532. Over the six years, Sam's Defined Benefit entitlement has also grown to an assumed $304,156. So Sam's Defined Benefit, adjusted for the offset account would be $177,624:

$304,156 - $126,532 = $177,624

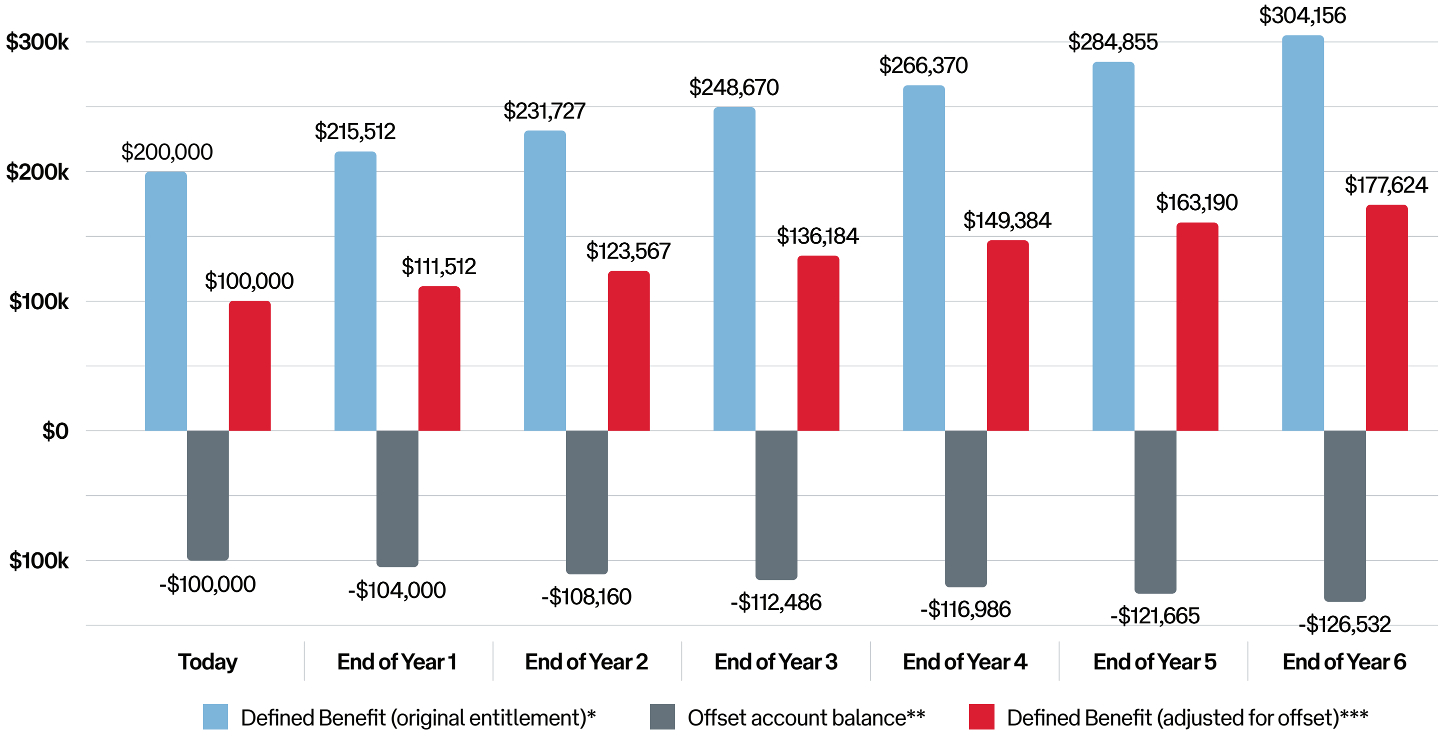
Importantly, it is not $304,156 minus the original $100,000 as this would not factor in the interest accrued on the offset account over the six years.

Although Sam has a reduced Defined Benefit payable at the end of Year 6 by taking part of the Defined Benefit early, there should still be money remaining in Sam's Pension 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.

Warning!

Compounding interest on APSS 'other' offset accounts will erode an APSS Defined Benefit. If the interest rates applied are high enough, an APSS 'other' offset account may actually increase faster than a Defined Benefit! Consider getting advice from a qualified financial adviser.

If you decide that you need some personalised, individual advice about your super, beyond the general help you can get by calling the APSS contact centre (as our service representatives are not licensed to provide personalised financial advice), you can choose any financial planner you want.



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

**Assumes a 4.0% p.a. average annual compounded interest rate is applied to the offset account balance. This could be higher or lower, but is expected to be around 4.0% p.a. going forward over the longer term, based on the June 2020 mix of assets. If you already have an APSS 'other' offset account that was opened years ago, the interest rate that has been applied is higher. So if 'Today' in the above chart was 1 May 2014, and the 'End of Year 6' was 30 April 2020, then the Defined Benefit (adjusted for offset) would be $158,816 and not $177,624 (based on a compound crediting rate of 6.43% for the six years to 30 April 2020).

***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 cannot 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 $126,532 offset against the Defined Benefit at that time.

IMPORTANT!

Example – If Sam needed another $20,000

Our example began with Sam needing $120,000 but he was only able to access $100,000 early to start a TTR (being 50% of his $200,000 Defined Benefit). If Sam still needed that additional $20,000 and he wanted to access it from his Defined Benefit, a second Pension account could be opened to unlock that amount, but not until the end of Year 5. This is because, as at the date of this fact sheet, the minimum amount necessary to establish a Pension account is $20,000. As shown in the table below, it will not be until the end of Year 5 that Sam will have enough Defined Benefit (adjusted to take into account his offset balance) to access $20,000.

Important!

Once you begin accessing your Defined Benefit, you cannot then continue using up 50% of the Defined Benefit entitlement you would otherwise have had; only 50% of the revised benefit adjusted for your offset account.

	End of Year 4	End of Year 5
A) Half (50%) of the Defined Benefit:	$133,185	$142,428
B) Offset account balance:	-$116,986	-$121,665
C) Amount of Defined Benefit available under the '50% Rule' (A - B = C):	**$16,199^**	**$20,763**

^ If Sam wanted to commence another TTR earlier than at the end of year 5 (e.g. at the end of Year 4), this amount could be topped up with other savings outside of super to reach the mandatory $20,000 required to start another Pension account.

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Other members with APSS offset accounts

Other offset accounts also apply to members who have successfully applied to release part of the APSS 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. As these sums are relatively small compared to members accessing their Defined Benefit early to transition to retirement, the effect of the compounding interest set out in the previous example is usually not as significant (although, depending on your age now and the age that you retire, over time it could be).

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. You can get free help, as explained on the financial counselling page of ASIC's moneysmart.gov.au website, which has a COVID-19 section on making financial decisions during this challenging time, with tips on looking after yourself and your money.

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 have another type of 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. With these accounts, the interest rate is 2.5% above the percentage change in full-time adult Average Weekly Ordinary Time Earnings (AWOTE). In the 6 years to 30 April 2020, that rate was 4.93% p.a. on average.

Surcharge Tax offsets

Finally, there are Surcharge Tax offset accounts. 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. Surcharge Tax accounts attract interest at the 10-year Commonwealth Bond rate. In the 6 years to 30 April 2020, that rate was 2.14% p.a. on average.

Need more information?

Call us on 1300 360 373 if you need assistance understanding this fact sheet, or send an email to sr@apss.com.au with any questions you may have.

Remember, as mentioned on page 2, if you decide that you need some personalised, individual advice beyond the general help you can get by calling or emailing us, you need to find a financial planner.

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