FACT SHEET

Retirement income streams

There are many options to consider when looking at your retirement income.

When a person reaches retirement age, they are faced with the question, ‘how should I access my super benefits?’ There are two options surrounding how you can ‘realise’ your super:

1. You can take it in the form of an income stream, or
2. Take as a cash lump sum.

The government wants to encourage people to take an income in retirement, rather than spending a lump sum and then accessing the age pension. This is why some income streams are given preferential tax treatment.

What is a retirement income stream?

Once retired, the need for an income does not suddenly stop. A retirement income stream refers to a regular source of money used to fund a person’s retirement. It’s simply an investment that allows you to receive regular income payments when you retire and thus enables you to manage your ongoing income and spending patterns.

What types of retirement income streams are there?

There are two main types of retirement income streams – pensions and annuities. A pension is usually paid from a superannuation fund, whereas the annuity is generally paid from a life insurance company.

Types of income streams that are available include:

› allocated pensions or annuities

› lifetime annuities

› life expectancy annuities and

› fixed-term annuities.

Explaining the different income streams

Allocated income streams

These are the most flexible types of income streams. An allocated income stream can be a tax effective way for you to continue to invest your money, get a return on your investment and draw a regular income or pension at the same time (subject to Government guidelines). The pension will be paid until the investment and earnings are exhausted.

You can generally withdraw the whole or part of your investment account at any time (unless it is a transition to retirement income stream). However, you should be aware of possible social security and tax implications. Individuals aged 60 and over are not subject to tax on their superannuation sourced pension payments or lump sum withdrawals from taxed sources. To find out your tax obligations, speak to your financial adviser.

An allocated income stream doesn’t guarantee you will have an income for your lifetime or for that matter, any fixed period. How long it lasts depends on how much you draw down each year and what investment earnings you receive.

Allocated income streams offer investment flexibility and access to your capital, but do not receive favourable assets test treatment for social security purposes.

Lifetime income streams (includes lifetime annuities and life expectancy annuities)

These offer a high degree of security and certainty. Lifetime income streams, as the name suggests, are payable for your lifetime, even if you live past age 100. This means you are guaranteed income payments, at least annually, for the rest of your life. So, there is no risk of outliving this type of income stream. It may also be possible to have income payments made for the lifetime of another person, usually a spouse, and the payments may reduce after one partner dies.

Before you purchase a lifetime income stream, you will receive a quote of the payments you can expect to receive in the future. This way you know where you stand before you commit your retirement savings. You simply nominate the features you want and then the provider will tell you how much they will pay you each year after taking into account your selections. You, or your financial adviser, can compare what is on offer through quotations. Unlike the allocated income streams, lifetime income streams are a lot less flexible when it comes to accessing your capital investment. Generally, most lifetime income streams are ‘non-commutable’. This simply means the capital you invest in them is not accessible at any time.

Because of the restricted access, it may not be appropriate to invest all your money in them. Some lifetime income streams purchased before 20 September 2007 will qualify for a 50% assets test exemption.

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Life expectancy income streams

These offer a few options in terms of security and certainty. Life expectancy income streams are guaranteed (usually by the provider) to be payable for a fixed period of time. The time period will be a number of years, broadly equivalent to your life expectancy at the time of purchase. You choose the term over which it is payable, subject to certain limits, and the term will then be fixed from the date of commencement.

You receive income payments at least annually over the fixed period which stop at the end of the term. Unlike lifetime income streams, they will not continue to be paid if you live longer than your life expectancy. The annual income offered will vary between providers. You, or your financial adviser, can compare what is on offer through quotations. Life expectancy income streams are a lot less flexible when it comes to accessing your original investment capital. You can also set this type of income stream up so upon your death it can continue to be paid to another person, usually your spouse, or your estate. Some lifetime income streams purchased before 20 September 2007 will qualify for a 50% assets test exemption

Fixed-term income streams

These offer security and certainty and also provide you with more options than other guaranteed income streams. A fixed term income stream is simply one that is payable for a set period of time. Unlike lifetime income streams, they won't be paid for your lifetime or the lifetime of anyone else. And as with lifetime and life expectancy income streams, the annual income will vary between providers. You, or your financial adviser, can compare what is on offer through quotations.

Which income stream do you choose?

If you want to retain flexibility in your financial affairs, it is likely an allocated income stream will be the most suitable option. Alternatively, if you are looking for a high level of security, and flexibility is not a major issue, then a lifetime or life expectancy income stream may be more appropriate.

If your preference is for higher investment returns (and higher risk) and flexibility is not as important, you might seek higher income payments by investing in a market–linked income stream. Of course, it may be you want the best of all worlds – a high level of security and certainty of income for part of your money and a high degree of flexibility with the balance. If this suits your needs, then investing in more than one income stream may be your best option.

Would you like more information?

Contact your ANZ Financial Planner who can provide you with information so you can make the decision that is right for you.

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