

**UNDERSTANDING LIFETIME ANNUITIES & MAXIMISING THE AGE PENSION****Introduction**

A life-time annuity is an insurance product that is designed to lower an individual or couples' assets and guarantee income in retirement. The benefit of utilizing an annuity is that it insures income for the lifespan of a retiree's needs and as it is an insurance product, it has special deeming rules applied to the contract for Centrelink, which as a result increases the age pension benefit.

**Financial Snapshot**

Jackson (67) and Polly (67) are both recently retired and are reviewing their income needs in retirement. They are very risk averse when it comes to investing and are seeking certainty on their long-term income needs. They both wish to retire on an income of \$70,000 per annum.

<b>Assets</b>	<b>Income &amp; Expenses</b>
Primary Residence: \$1,000,000	Retirement Income Needs: \$50,000
Super Account (Jackson): \$500,000 (100% Taxable Component)	Retirement Income Wants: \$20,000 (i.e. holiday or new car)
Super Account (Polly): \$300,000 (100% Taxable Component)	Current Age Pension Benefit: \$7,415/a
Joint: Cash Reserves: \$150,000	

**Understanding Mary's Financial Needs**

Jackson and Polly wanted primarily wanted to know whether they had sufficient income to fund her retirement and whether her assets will 'go the distance'. They were also risk averse when it came to investing however were also grappling with managing living beyond their expected life expectancies. After a proper consultation with an advisor, they were proposed with investing inside their super where funds could be invested with the market, they were still likely to achieve their long-term income needs and live within their means; the tradeoff was insuring their income and maximizing the age pension benefits sooner, which was a decision that they were willing to accept as the income was guaranteed.

**Financial Objectives**

- To fund retirement on an income of \$70,000 per annum until their respective life expectancies + 5 years.
- To maximize their age pension benefits and guarantee their income for their lifespan by investing \$100,500 in an annuity.

**Strategy Consideration - Mitigating Longevity Risk, Understanding What Annuities Are & How They Are Deemed For The Age Pension**

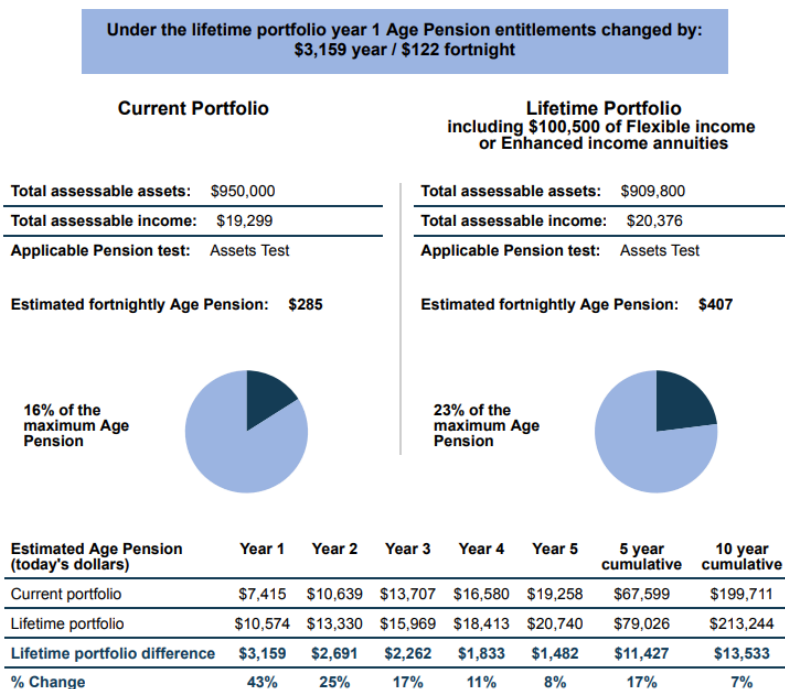
- Longevity risk is the financial risk that an individual will outlive their retirement savings or resources. This risk arises due to uncertainties surrounding life expectancy, with people living longer than expected, potentially depleting their savings or income streams.
- There are several annuity products in the market that are available and tailored to the investors preference/risk tolerance, the annuities can be either:
  - Capital Protected and Guaranteed Income (which is indexed every year)
  - Market Linked (income payments linked to changes in investment markets, payments will be indexed up and down based on the performance of their chosen index).
- To determine how much Age Pension you are eligible to receive, there are two tests: Assets test; and Income test. The amount of Age Pension you receive will be based on the test that provides the lowest amount of Age Pension entitlement.

## CASE STUDY

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### Outcomes and Uplift In Age Pension Benefits

It is important to note an annuity isn't a one size fits all and that is tailored to an investors risk tolerance and preference for income. In this example investor has to balance the tradeoff between investing funds in their superannuation (tax free) and in line with a market compared to the uplift in the age pension plus the interest rate from an annuity (4.65% indexed). The reason why Jackson and Polly made the decision to persevere with an annuity in this example was because their retirement portfolios were sufficient to meet their long term income needs, all the while benefitting from insuring their income and an increase in the age pension as show in the graphic below:



Being eligible for the Age Pension also entitles you to a Pensioner Concession Card. A Pensioner Concession Card entitles you to reduced cost medicines under the Pharmaceutical Benefits Scheme. You may also be entitled to various concessions from state and territory governments and local councils such as: reductions on property and water rates; reductions on energy bills; reduced or free fares on public transport, and reductions on motor vehicle registration.

### Further Considerations

As part of the advice provide to Mary he also considered the other areas of financial advice which were:

- Quarantining Concessional and Non-Concessional Contributions
- Re-contribution strategy

### Learning More

Want to talk about your personal situation with one of our advisors?

Call, email or visit our website using the details below for a **free no-obligation 30-min catch-up** with one of our experts.

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