Retirement income
what you need to know

One of the most effective ways to provide some or all of your required level of income in retirement may be via a regular retirement income stream such as an account-based pension or an annuity. Some retirees may also be eligible for an Age Pension or other benefits from the Australian Government. It's important to understand how all these options work to determine the solution that is right for you.

Will I have enough to retire?
With improved life expectancy and advances in medical science, Australians can look forward to a much longer and more active retirement than past generations. A male retiring at age 65 is likely to spend around 19 years in retirement and a female 22 years.[1] Enjoying a long and happy retirement, however, may cost more than you think. According to the Association of Superannuation Funds of Australia (ASFA), the following lump sums are required to provide a comfortable level of retirement income.

	Income required for comfortable retirement[2]	Lump sum required[3]
Single	$43,601 pa	$545,000
Couple (combined)	$61,522 pa	$640,000

Your financial adviser can help you see how you are tracking by determining your future income potential, projecting your final savings at retirement, and taking you through your options.

Transition to retirement – flexibility and choice
Before you retire you may have the option to 'transition to retirement' (TTR). This means you can reduce your work hours and supplement your income with potentially tax-effective withdrawals from your super through a transition to retirement income stream. Your financial adviser can help outline your choices and the impact that starting a transition to retirement income stream may have for your super balance at retirement.

Earnings on assets supporting a transition to retirement income stream are generally taxed at up to 15%. Prior to 1 July 2017, they were tax free.

How do I access an income in retirement?
As well as any Age Pension you may be entitled to, or non-super investments such as properties that you may choose to retain and receive income from (e.g. rent), the most common way to provide for your required level of retirement income is with one or more regular retirement income streams. These include:

- Account-based (allocated) pensions – these must be purchased with your super savings
- Lifetime or term annuities – these can be purchased with either your super or non-super savings, or a combination of both.

In some cases, the best way to provide for your retirement income could be to combine an account-based pension and an annuity.

What are account-based pensions and annuities?
An account-based (or allocated) pension lets you draw regular flexible pension payments from your super balance. Your pension account balance is adjusted in line with market movements, investment returns, pension payments, lump sum withdrawals and fees.

An annuity generally involves swapping some of your retirement savings for a guaranteed income stream payable over a specified period. The two main types of annuities are:

- Fixed term annuities which pay a guaranteed income for a defined period of time e.g. 20 years
- Lifetime annuities which pay a guaranteed income for the remainder of your life.

By guaranteeing your future income payments regardless of the underlying performance, the annuity provider effectively carries all the investment risk. They also offer flexible ownership options and indexing to protect against inflation. The trade-off for an investor is you generally have no choice of investments, limited ability to make withdrawals and can't change your income once the annuity has commenced.

A summary of the key features of account-based pension and annuities is as follows:

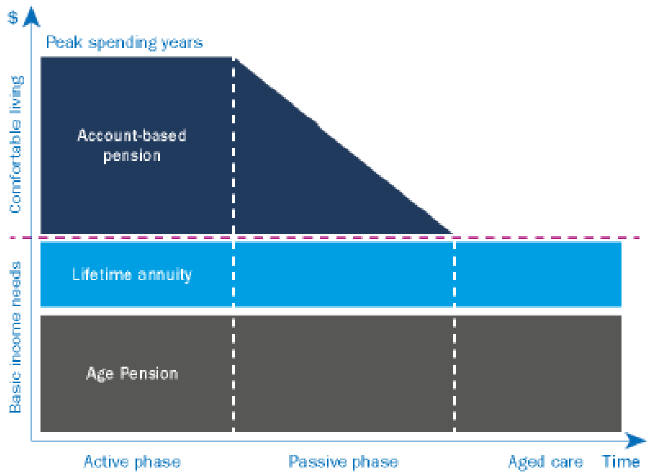
	Account-based pensions	Annuities
Guaranteed income	No	Yes
Choice of investments	Yes	No
Ability to vary income	Yes – above a set minimum	No
Access to capital	Yes	Yes – for fixed term annuities. Yes – for lifetime annuities within the guaranteed period.
Guaranteed fixed term	No	Yes – either lifetime or a chosen fixed term.
Purchase with non-superannuation savings	No	Yes
Death benefit payable	Yes – of the remaining account balance	Fixed term – yes, a lump sum or continuing annuity payments. Lifetime – yes, only if death occurs within a chosen guaranteed period.

Combining retirement income streams

The right mix of retirement income streams will depend on your individual needs and circumstances, which might include:

- Your fixed and variable income needs in retirement
- Whether you will need to access some of your retirement savings as a lump sum in the future
- How important qualifying for social security benefits such as the Age Pension is to you
- Your estate planning needs, including whether you want to leave an inheritance to your dependants in the future
- Your tolerance for risk when investing.

For example, you could consider using a lifetime annuity to provide enough guaranteed income (along with any Age Pension you're entitled to) to allow you to meet your fixed income needs in retirement, while using flexible payments from an account-based pension to meet your additional non-essential spending needs – as shown in the following graph.



Your financial adviser can help you decide the mix of income streams that best suits your circumstances.

How are account-based pensions and annuities taxed?[4]

If you commence a retirement phase account-based pension with super savings, earnings on assets supporting the income stream are tax free, compared to the accumulation phase of super where earnings are taxed at up to 15%.

The taxation of payments you receive from a retirement phase account-based pension is as follows:

- Aged between preservation age and 59 – income received is assessable and taxed at your marginal tax rate. Part of each payment may be tax-free and you may qualify for a 15% tax offset on the taxable component which means you may end up paying little or no tax on your income. Lump sum withdrawals (where possible) may also be taxed, part of the

withdrawal may be tax-free and the remainder taxed at a maximum rate of 15% plus the Medicare levy.
- Aged 60 or above – any income and lump sum withdrawals received are tax-free.

Income payments from annuities purchased with non-super savings are assessable and taxed at your marginal tax rate. However, part of your payment, generally equal to the return of your original investment over time, will be tax-free.

If you receive income from one or more 'capped defined benefit income streams', additional tax will apply to part of some payments you receive over $100,000 during a financial year. Capped defined benefit income streams include:
- certain lifetime pensions commenced at any time, and
- certain lifetime annuities, term pensions and annuities, and term allocated pensions, commenced before 1 July 2017.

Transfer balance cap
A $1.6 million 'transfer balance cap' applies to limit the total amount of superannuation savings you can use to commence retirement phase income streams. The Government tracks the commencing value of all your retirement phase income streams in your 'transfer balance account'. Extra tax may apply if your transfer balance account exceeds the $1.6 million transfer balance cap, and you will generally have to move the excess back to the accumulation phase of super or withdraw it from the super system.

Retirement phase income streams include account based pensions, and most other superannuation income streams, but generally not transition to retirement income streams.

The value of a transition to retirement income stream will only be added to your transfer balance account if you are age 65 or over or you have notified the fund that you have retired, are permanently incapacitated or terminally ill.

Amounts that are added to your transfer balance account generally include the existing value of retirement phase income streams at 30 June 2017 (for example the current balance of an account based pension) and the starting value of any new retirement phase income streams (including death benefit income streams) commenced on or after 1 July 2017.

Your transfer balance account is reduced by:
- lump sums withdrawn from retirement phase income streams from 1 July 2017
- amounts rolled over from retirement income streams from 1 July 2017
- the value of structured settlement superannuation contributions made by you
- certain reductions in your super balance due to fraud or dishonesty, bankruptcy or a family law payment split.

Investment earnings or losses do not impact your transfer balance account.

What happens to your account-based pension or annuity when you die?
The treatment of your retirement income stream upon your death depends on:
- The type of income stream
- Whether your income stream was purchased with super or non-super savings
- The type of beneficiary arrangements you have in place (if any)
- The beneficiary's remaining transfer balance cap.

Account-based pension (super)	Upon death, your remaining account-based pension balance is payable (as a lump sum or account-based pension) to one or more of your dependants, or your Legal Personal Representative (as executor of your estate)[5]. Depending on your super provider, you may be able to nominate who receives your benefit in one of the following ways: • Non-binding nomination: Gives your super fund trustee an indication of where you would like your benefits paid, however, they are not bound by your nomination and may take other factors into account. • Binding nomination: Where you make a valid nomination, your super fund trustee must pay your benefit to the beneficiaries you've nominated. • A binding death benefit nomination will have to be updated every three years to remain valid, unless the super trustee has made the nomination non-lapsing, which means you do not have to update it. • Reversionary beneficiary: Upon your death, your eligible beneficiary will automatically continue to receive your account-based pension income. • No nomination: Your super fund's default provisions apply. This may include paying your benefits to your legal personal representative or your super fund trustee choosing which eligible beneficiaries should receive your benefit.

Lifetime annuity (super)	If your annuity has a reversionary beneficiary, upon your death, payments will continue to your beneficiary for the remainder of their life.[6] Where no reversionary beneficiary exists, payments generally cease upon your death. An exception applies if your annuity has a guaranteed period (also known as a withdrawal period) and you die within that period. Where this occurs, a lump sum withdrawal value is payable. If your annuity has already reverted to your reversionary beneficiary and they die within the guaranteed period, a lump sum withdrawal value is payable.
Term annuity (super)	If your annuity has a reversionary beneficiary and you die before the annuity term expires, payments will continue to your beneficiary for the remainder of the term. Your beneficiary will also receive any residual capital value (an amount payable when the annuity term ends). Where no reversionary beneficiary exists and you die within the term, a lump sum withdrawal value is payable.
Lifetime annuity (non-super)	If your annuity has a reversionary beneficiary or is a joint annuity, upon your death, payments will continue to your beneficiary / joint annuitant for the remainder of their life. In other cases, payments generally cease upon your death. An exception applies if your annuity has a guaranteed period (also known as a withdrawal period) and you die within that period. Where this occurs, a lump sum may be payable or payments will continue to be made for the remainder of the period to your nominated beneficiary or your legal personal representative. If your annuity has already reverted to your reversionary beneficiary or has continued to be paid to your joint annuitant after your death, and they die within the guaranteed period, payments will continue to be made for the remainder of the period to (or a lump sum equivalent paid to) nominated beneficiary or legal personal representative.
Term annuity (non-super)	If your annuity has a reversionary beneficiary or is a joint annuity, and you die before the annuity term expires, payments will continue to your beneficiary or joint annuitant for the remainder of the term. They will also receive any residual capital value (an amount payable when the annuity term ends). Where no reversionary beneficiary or joint annuitant exists and you die within the term, payments will continue to be made for the remainder of the term to (or a lump sum equivalent paid to) your nominated beneficiary or your legal personal representative. They will also receive any residual capital value (an amount payable when the annuity term ends).
Beneficiary's transfer balance cap	The beneficiary of your retirement income stream must have enough room left in their transfer balance account to receive any benefits as a retirement income stream. If the value of your retirement income stream exceeds the room left in the beneficiary's transfer balance account, the beneficiary may be required to take the benefit as a lump sum.

Social security benefits
The Government provides a range of social security benefits to assist certain individuals and families. The type and amount of benefits you can receive depend on your personal and financial circumstances and your stage of life. Common benefits that retirees may be entitled to include the Age Pension, Service Pension, Pensioner Concession Card, and Commonwealth Seniors Health Card.

What are the Age Pension and Service Pension?
The Age Pension (managed by the Department of Human Services) is a social security benefit designed to ensure that all eligible Australian retirees have at least a basic level of income in retirement. The Service Pension (managed by the Department of Veterans' Affairs) provides the same type of support to eligible veterans and their partners, widows or widowers.

The Age Pension and Service Pension are generally paid at the same rates and normally subject to the same income and assets tests.

Age requirements
To qualify for the Age Pension or Service Pension, you must have reached age pension age. This age depends on when you were born and is shown in the table overleaf:

Born	Women eligible for Age Pension at age	Men eligible for Age Pension at age
Between 1 July 1947 and 31 December 1948	64.5	65
Between 1 January 1949 and 30 June 1952	65	65
Between 1 July 1952 and 31 December 1953	65.5	65.5
Between 1 January 1954 and 30 June 1955	66	66
Between 1 July 1955 and 31 December 1956	66.5	66.5
After 1 January 1957	67	67

The Age Pension age for Veterans with eligible qualifying service is 5 years younger than the normal age pension age – for example, the Age Pension age for an eligible female Veteran born on 1 January 1954 would be 61.

Payment rates
The maximum Age Pension and Service Pension rates are as follows:

Age Pension rate per fortnight as at 20 September 2019:	
Single	$933.40
Couple	$703.50 each or $1,407.00 combined

Rates include maximum pension supplement and energy supplement. Maximum rates are indexed every 6 months on 20 March and 20 September. For the latest rates refer to www.humanservices.gov.au or www.dva.gov.au.

However, the Age Pension and Service Pension are subject to means testing, which means your actual rate of payment may be reduced because of your financial situation. Means testing includes calculating your payment under both an assets test and an income test – the one that results in the lowest payment rate will then apply.

Understanding the assets test
For the purposes of the assets test, an asset is any property or possession that you fully or partly own. Assets are valued according to their net market (sale) value.

Some of the assessable assets covered by the test are:

- funds in bank accounts, shares and managed funds
- superannuation funds (once over Age Pension age)
- motor vehicles, boats and caravans
- household contents and personal effects
- property such as holiday homes
- retirement income streams such as account-based pension and annuities.

Some assets are exempt from the assets test, including:

- your principal home
- superannuation (while under age pension age)
- Certain retirement income streams purchased before 20 September 2007 (may be 50% or 100% exempt) – seek financial advice if you think you already have one of these income streams
- Pensions from a defined benefit superannuation scheme.

Under the assets test, your pension will not reduce until your assets exceed a lower threshold. Your pension is then reduced by $3.00 pf for every $1,000 of assets over this threshold.

The assets test thresholds differ depending on whether you are single or married and whether or not you own your home, and are shown in the following table:

Assets test thresholds at 1 July 2019		
Situation	For maximum pension	For part pension
Single homeowner	$263,250	$574,500
Single non-homeowner	$473,750	$785,000
Couple homeowner	$394,500	$863,500
Couple non-homeowner	$605,000	$1,074,000

Lower thresholds are indexed each year on 1 July, while upper thresholds may change on a quarterly basis. There are also different rates for a couple separated by illness and a couple where only one partner is eligible for the Age Pension.
Visit www.humanservices.gov.au or www.dva.gov.au for full details.

Assets test treatment of account-based pensions and annuities
The account balance of your account-based pension is counted for assets test purposes.

If you purchased a long term annuity prior to 1 July 2019, the purchase price initially counts for assets test purposes. However, this value may then be reduced over time to take into account the proportion of each annuity payment that represents repayments from your original capital.

If you purchased a lifetime annuity[7] on or after 1 July 2019, 60% of the purchase price is assessable until age 84 (or a minimum of five years), then 30% of the purchase price is assessable for the remainder of life.

Understanding the income test
For the purpose of the income test, income is defined as any money earned, derived or received for your use or benefit and includes:

- deemed income from financial investments such as shares, managed funds and bank accounts
- deemed income from superannuation where you have reached age pension age
- gross income from salary and wages
- income from business and real estate
- certain levels of income from retirement income streams such as account-based pensions and annuities.

Under the income test, your pension will not reduce until your income exceeds a lower threshold. For every dollar you have above the lower threshold, your pension will then generally reduce by 50 cents per fortnight (singles or couples combined) until it cuts out completely. The thresholds are shown in the following table:

Income test thresholds as at 1 July 2019		
Family situation	**For maximum pension**	**For part pension**
Single	Up to $174 pf	Less than $2,048.80 pf
Couple (combined)	Up to $308 pf	Less than $3,122.00 pf

Lower thresholds are indexed each year on 1 July, while upper thresholds may change on a quarterly basis. Visit www.humanservices.gov.au or www.dva.gov.au for the latest thresholds.

Take advantage of the Work Bonus
The Work Bonus provides an incentive to keep working once you reach age pension age. Under this concession, the first $300 of income from gainful work that involves personal exertion, earned each fortnight is not counted under the income test. Depending on your situation, this can mean up to an extra $3,900 pa in age pension (single or couple combined).

Income test treatment of retirement income streams
The income test treatment of your retirement income stream will depend on the type of income stream and your circumstances.

Account-based pension (not grandfathered)	The balance of your account-based pension (along with all of your other financial investments) are subject to deeming for income test purposes. Deeming involves assuming that an asset earns certain rates of return, regardless of the actual earnings generated. If you have an account-based pension that is deemed, your actual pension payments are not counted as income under the income test.
Account-based pension (grandfathered) Your account-based pension will be grandfathered if it commenced prior to 1 January 2015 and you have continuously received an eligible social security payment (e.g. Age Pension) since before 1 January 2015. Grandfathering can also extend where your account-based pension automatically reverts to a reversionary beneficiary upon your death, provided the beneficiary receives an eligible social security payment continuously from just before it reverts.	Any pension payments each year that exceed your 'deductible amount' are counted for income test purposes. Where you do not have a reversionary beneficiary, your annual deductible amount is generally your purchase price, divided by your life expectancy. Where you do have a reversionary beneficiary, your annual deductible amount is generally your purchase price, divided by the longer of your or your reversionary beneficiary's life expectancies.
Lifetime annuity purchased on or after 1 July 2019 (complies with capital access schedule)	Lifetime income streams purchased on or after 1 July 2019, that comply with a 'capital access Schedule', have 60% of annual payments counted for income test purposes. A capital access schedule limits the amount of capital

	that can be accessed as a voluntary commutation or death benefit. Grandfathering applies to lifetime income streams commenced prior to 1 July 2019 and they will continue to be assessed under the income test treatment below.
Lifetime annuity purchased before 1 July 2019	Any annuity payments each year that exceed your 'deductible amount' are counted for income test purposes. Where you do not have a reversionary beneficiary, your annual deductible amount is generally your purchase price, divided by your life expectancy. Where you do have a reversionary beneficiary, your annual deductible amount is generally your purchase price, divided by the longer of your or your reversionary beneficiary's life expectancies.
Term annuity	For long term annuities (six years or more, or at least your life expectancy if less than six years), any annuity payments each year that exceed your 'deductible amount' are counted for income test purposes. Your annual deductible amount is generally your purchase price less any capital remaining when your annuity ends (residual capital value), divided by the annuity term. Short term annuities, in contrast, are treated as financial investments and (along with other financial investments) are subject to deeming for income test purposes.

Pensioner Concession Card
If you receive an eligible income support payment (for example the Age Pension or Service Pension), you also get a Pensioner Concession Card. Cardholders are eligible for reduced cost medicines under the Pharmaceutical Benefits Scheme (PBS), as well as other concessions, including reduced water rates, energy bills and property rates, a telephone allowance, reduced public transport fares and reduced motor vehicle registration costs.

Commonwealth Seniors Health Card
Even if you don't qualify for the Age Pension (for example, your assets or income are too high), you may be eligible to receive the Commonwealth Seniors Health Card (CSHC). The CSHC provides a range of benefits, such as discounts on prescription medicine, Australian government funded medical services and other government concessions, to certain self-funded retirees.

To qualify for the Commonwealth Seniors Health Card, your adjusted taxable income must be less than $54,929 pa (singles) or $87,884 pa (couples combined). It's also important to note that a deemed amount of income from your account-based pension will count towards this income test. However, if your account-based pension commenced prior to 1 January 2015 and you have continuously held a CSHC since before that time, your account-based pension income is exempt from this income test.

Why financial advice is important
Talking to a financial adviser before you retire will help put you on the road to financial security and access the following benefits:

- Getting help from a financial adviser can help you decipher complex super and tax legislations.
- They can help you assess the best income stream options and also structure your retirement portfolio to save tax.
- They are supported by a network of technical and qualified specialists in super and retirement.
- You can schedule regular reviews to ensure you stay on track before and after you retire so all you need to focus on is enjoying a new more relaxed lifestyle.

1 Australian Government Actuary, Life tables, 2010–12.

2 ASFA Retirement Standard – June quarter 2019.

3 ASFA Retirement Standard – All figures in today's dollars (using 2.75% as a deflator) and assumed investment return of 6% per annum. Standards assume that the retirees own their own home aged between 65 and 85 years.

4 This tax treatment applies to payments from taxed super funds. Additional tax may apply to payments made from untaxed government super funds (untaxed funds include certain government superannuation schemes).

5 Dependants include your spouse, child, financial dependant or interdependent relation. Death benefits can only be paid as an income stream if paid to your legal personal representative or child (unless aged under 18, under 25 and financially dependent on you or permanently disabled). From 1 July 2017, your beneficiary's remaining transfer balance cap may limit the amount of death benefit they can receive as an account based pension.

6 Your reversionary beneficiary must be one of your dependants who is also eligible to receive a superannuation death benefit as an income stream (e.g., a spouse). From 1 July 2017, your reversionary beneficiary's remaining transfer balance cap may limit the amount of reversionary annuity they can continue to receive.

7 Assumes income stream complies with the capital access schedule, which are restrictions the Government places on the amount that may be commuted from the income stream.

Speak to us for more information

If you have any questions, please speak to your Count Financial Adviser.

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