



I am 63 and my husband is 64. We are both retiring in the next year but don't understand all the different types of retirement income streams. Can you please help us?

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A retirement income stream is an investment that pays you a regular income when you retire. Retirement income is generally paid either as a pension (through a superannuation fund) or as an annuity (via a life insurance company).

There are four different types of income streams that are available:

- Allocated (or account based) pensions and annuities;
- Lifetime annuities
- Life expectancy annuities; and
- Fixed term annuities

Allocated pensions are the most popular income streams generally offer you greater flexibility but as we know, greater flexibility usually comes with greater risk. If you are looking for a higher level of security then you may be better suited to a lifetime or life expectancy income stream. The table below

Advice is general in nature. Readers should always seek further financial advice before making financial decisions.

1. Account based pensions and annuities

An account based pension or annuity (also called an allocated pension) is one of a number of products that you can buy with a lump sum from a superannuation fund, or paid from a self-managed superannuation fund, to give you an income during your retirement.

Setting up an account based pension or annuity

- Account based pensions can be purchased from superannuation funds using superannuation money (that is money paid out from a superannuation fund or retirement savings account (RSAs). Account based annuities can be purchased from a life insurance company using superannuation money.

- An investment account is set up with this money from which you draw a regular income. A minimum payment must be made at least annually. These limits are set based on an aged based percentage basis as follows:

Age	Minimum payment as a % of account balance
55 - 64	4 %
65 - 74	5 %
75 - 79	6 %
80 - 84	7 %
85 - 89	9 %
90 -94	11%
95+	14 %

- There is no maximum limit set on the income that can be drawn each year giving you greater flexibility in determining your income requirements.
- The capital value of the pension or annuity, and the income from it, cannot be used for borrowing.
- You may choose how your money is invested by the fund manager (known as 'investment choice'). Fund managers have different investment strategies, which you can select, that carry different levels of risk and, therefore, potentially different levels of return.

Income

- Income is payable until there is no money left in the account. If you die before this happens, the account balance will be paid out as a lump sum to your dependant, to your estate, or the income payments can continue to be paid to a beneficiary, such as a spouse or dependant. You can choose a reversionary beneficiary for the income stream, such as a dependant or spouse.
- Account based pensions and annuities give you the flexibility of having access to your money at any time. You can withdraw some or all of the money above the minimum amount as a lump sum (this is known as full or partial commutation).
- The level and duration of income payments is not guaranteed. This is because the account balance is affected by withdrawals, fees and investment returns.

Tax

- For age 60 and over: All pension payments from a taxed source (where the super has been taxed in the fund) are tax free when paid to individuals aged 60 or over.
- For under 60: Pension payments for individuals aged under 60 are taxed.

For more information see [How your super payout is taxed](#) on the Australian Tax Office website.

[Account based pension calculator](#)

Social security (age pension)

- Your eligibility for the age pension is worked out by taking into account both how much income you get (the income test) and how much your assets are worth (the assets test). The test that results in the lower rate of age pension is the one that is applied.
- For the purposes of the income test for the age pension, income from an account based (also known as an allocated pension) or annuity will be reduced by an amount that represents the return of your capital. This has not changed.

- An account based income stream is assessed under the assets test for the age pension.
- The pension assets test taper is \$1.50 per fortnight for every \$1,000 above the relevant threshold.

2. Lifetime pensions and annuities

A lifetime pension or annuity is one of a number of products that you can buy with a lump sum from a superannuation fund or other money to give you an income during your retirement.

If you already have a lifetime pension or annuity you will not be able to transfer to a new account-based pension or annuity.

Setting up a lifetime pension or annuity

- Lifetime pensions can be purchased from a superannuation fund using superannuation money (that is money paid out from a superannuation fund or a retirement savings account (RSA)). Lifetime annuities can be purchased from a life insurance company using either superannuation money or other savings.
- Joint lifetime annuities, where income payments are made to two or more beneficiaries, can only be purchased with other savings (that is non-superannuation money).
- Lifetime pensions or annuities provide income payments for your lifetime and for the lifetime of reversionary beneficiaries (if any).
- Investment choice (which is where you choose how your money is invested by the fund manager) is not relevant because the income is fixed subject to indexation.

Income

- Income is fixed at commencement and can be indexed to increase each year, either by a fixed percentage or in line with inflation.
- Generally, the money in the income stream cannot be taken out (also known as non-commutable).
- The income stream can be set up on a reversionary basis so that income payments continue to be paid to a beneficiary, such as a spouse or dependant, when you die. Your beneficiary will not usually

receive the same level of income payments that you received (that is the payments are usually reduced).

- The option of a guaranteed period is also available. If you die within the specified guaranteed period, your nominated beneficiary (or your estate) will be entitled to receive either the remaining income payments as an income stream or lump sum. Unlike the reversionary beneficiary option, the income payments received under a guaranteed period will not reduce.

Tax

- For age 60 and over: All pension payments from a taxed source (where the super is taxed in the fund) are tax free when paid to individuals aged 60 or over.
- For under 60: Pension payments for individuals aged under 60 are taxed.

For more information see [How your super payout is taxed](#) on the Australian Tax Office website.

Social security (age pension)

- Your eligibility for the age pension is worked out by taking into account both how much income you get (the income test) and how much your assets are worth (the assets test). The test that results in the lower rate of age pension is the one that is applied.
- For the purposes of the income test for the age pension, income from a lifetime pension or annuity will be reduced by an amount that represents the return of your capital. The income test will not change under the new rules from 1 July 2007.
- Lifetime income streams can be complying income streams if they have certain features in the Social Security Act 1991. Complying lifetime income streams bought on or after 20 September 2004 will be 50% exempt from the assets test for the age pension. Complying income streams bought before 20 September 2004 are 100% exempt from the assets test for the age pension. However, this exemption will be removed for income streams purchased on or after 20 September 2007, but will

not affect the assets test treatment of income streams purchased before this date.

3. Life expectancy pensions and annuities

A life expectancy pension or annuity is one of a number of products that you can buy with a lump sum from a superannuation fund or other money to give you an income during your retirement.

If you already have a life expectancy pension or annuity you will not be able to transfer to a new account-based pension or annuity.

Setting up a life expectancy pension or annuity

- Life expectancy pensions can be purchased from a superannuation fund using superannuation money (that is money paid out from a superannuation fund, or a retirement savings account (RSA). Life expectancy annuities can be purchased from a life insurance company using either superannuation money or other savings.
- Joint life expectancy annuities, when income payments are made to two or more beneficiaries, can only be purchased with other savings (that is non-superannuation money).
- Life expectancy pensions and annuities provide income payments fixed for a term that is based on your life expectancy as if you were 5 years younger.
- Investment choice (which is when you choose how your money is invested by the fund manager) is not relevant because the income is fixed subject to indexation.

Income

- Income is fixed at commencement and can be indexed to increase each year, either by a fixed percentage or in line with inflation.
- You can choose to have part of your initial investment repaid to you at the end of the term. This is called the residual capital value.
- Income is payable for a term which lies between your life expectancy at purchase or your life expectancy as if you were 5 years younger.

- You can choose a reversionary beneficiary for the income stream. If the reversionary beneficiary is your partner (that is your spouse or de facto), and their life expectancy is longer than yours, then you can choose to have your income paid for a term between their life expectancy at purchase, or their life expectancy as if they were 5 years younger.
- If you purchased a life expectancy pension or annuity before 20 September 2004, then different rules apply. Under the old rules, income is payable for a term equal to your life expectancy at purchase, or for a term of 15 years if your life expectancy was more than 15 years. These rules no longer apply.

Tax

- For age 60 and over: All pension payments from a taxed source are tax free when paid to individuals aged 60 or over.
- For under 60: Pension payments for individuals aged under 60 are taxed.

For more information see [How your super payout is taxed](#) on the Australian Tax Office website.

Social security (age pension)

- Your eligibility for the age pension is worked out by taking into account both how much income you get (the income test) and how much your assets are worth (the assets test). The test that results in the lower rate of age pension is the one that is applied.
- For the purposes of the income test for the age pension, income from life expectancy pension or annuity will be reduced by an amount that represents the return of your capital. The income test will not change under the new rules from 1 July 2007.
- Life expectancy income streams can be complying income streams if they have certain features. A life expectancy income stream bought on or after 20 September 2004 will be 50% exempt from the assets test for the age pension. However, this exemption will be removed for income streams purchased on or after 20 September 2007 but will

not affect the assets test treatment of income streams purchased before this date.

4. Fixed term pensions and annuities

A fixed term pension or annuity is one of a number of products that you can buy with a lump sum from a superannuation fund or money from other sources to give you an income during your retirement.

If you already have a fixed term pension or annuity you will not be able to transfer to a new account-based pension or annuity.

Setting up a fixed term pension or annuity

- Fixed term pensions can be purchased from a superannuation fund using superannuation money (that is money paid out from a superannuation fund or a retirement savings account (RSA). Fixed term annuities can be purchased from a life insurance company using either superannuation money or other savings.
- Joint term annuities, where income payments are made to two or more beneficiaries can only be purchased with other savings (that is non-superannuation money).
- Fixed term pensions and annuities provide income payments for a fixed term (usually between 1 and 25 years).
- Investment choice (which is when you choose how your money is invested by the fund manager) is not relevant because the income is fixed subject to indexation.

Income

- Income is fixed at commencement and can be indexed to increase each year, either by a fixed percentage or in line with inflation.
- You can choose to have part of your initial investment repaid to you at the end of the term. This is called the residual capital value.
- The income stream can be set up on a reversionary basis, so that income payments continue to be paid to a beneficiary, such as a spouse or dependant, when you die.

Tax

- For age 60 and over: All pension payments from a taxed source are tax free when paid to individuals aged 60 or over.
- For under 60: Pension payments for individuals aged under 60 are taxed.

For more information see [How your super payout is taxed](#) on the Australian Tax Office website.

Social security (age pension)

- Your eligibility for the age pension is worked out by taking into account both how much income you get (the income test) and how much your assets are worth (the assets test). The test that results in the lower rate of age pension is the one that is applied.
- For the purposes of the income test for the age pension, the amount of income assessed will depend on a number of factors including your life expectancy and the term of the product (in most cases, must be greater than 5 years to qualify).
- A fixed term income stream is not a complying income stream and as a result is fully assessed under the assets test for the age pension.

5. Term allocated or market-linked pensions and annuities

A 'complying' income stream for the purposes of age pension eligibility, may disappear after 20 September 2007.

A term allocated or market-linked pension or annuity is one of a number of products that you can buy with a lump sum from a superannuation fund, or paid from a self-managed superannuation fund, to give you an income during your retirement. These products were introduced on 20 September 2004.

Due to the removal of taxation under the RBL regime on 1 July 2007 and changes to the assets test for eligibility to the age pension to take effect from 20 September 2007, these products may disappear from the market as they will no longer be useful.

If you already have a market linked pension or annuity you will not be able to transfer to a new account-based pension or annuity.

Comparison of different types of income stream products

The following table provides a summary of the different types of income stream products and shows how their features vary. The non-account based products in the following table are assumed to be complying products for social security purposes.

Features	Account based Income streams	Account Based Market Linked income streams¹	Non Account based Lifetime income streams²	Non Account based Fixed Term income streams³
Account based	Yes	Yes	No	No
Insurance company based	No	No	Yes	Yes
Annual income payments are guaranteed	No	No	Yes	Yes
Investment choice	Yes	Yes	No	No
Fixed term	No	Yes	No	Yes
Access to capital	Yes		No	No
Recipient can vary annual income received	Yes	Yes	No	No
Residual capital value allowed	N/A	No	No	No
Death benefit payable	Yes	Yes	Possible ⁴	Yes
Asset test concession (if purchased) ⁵ : * pre-20 Sept 2004	N/A	N/A	100%	100%
* post- 20 Sept 2004	N/A	50%	50%	50%
Income tested	Yes	Yes	Yes	Yes

Investing in Income Streams to suit your needs

Trying to match the investment in income streams to your income needs can require some extra thought. In the 'In Real Life' cases used we assume that investment returns will be consistent over the life of the income stream, whereas in practice they generally vary each year. Also, the cases assume that where income is to increase each year, it does so in a consistent fashion. In practice, our retirement income needs will vary throughout retirement years.

Working out income needs throughout retirement is a very personal thing and it is quite difficult to generalise about income needs.

Some people take the view that they should have higher income in the earlier years of retirement when they are healthy and active. Hence, with greater activities, including travel, expenses may be higher.

Others take the view that they should try to limit living expenses in earlier years to build up capital for later in retirement and also to provide for contingencies such as health costs.

There is no right or wrong answer to this. There may be phases of retirement where your income needs will vary. What you do is to try to design your income stream investments so that the right amount of income is produced at the right times.

When we look at the different income streams from an income flexibility viewpoint we can see how the features are different.

Type of Income Stream	Income Flexibility
Account Based (Allocated)	Good flexibility with minimum income catering for a wide range of income levels. Capital will be used up more quickly if higher levels of income are taken and preserved for longer if minimum taken.
Account Based (Market Linked)	Limited income flexibility (+ 10% or - 10%) but you know that income will be payable for the term selected.
Non Account Based (Lifetime)	Very little flexibility apart from the % level of indexation of payments each year but you know that payments are payable for life.
Non Account Based (Fixed Term)	Very little income flexibility but again you know that income will be payable for the term selected. However the term selected could be shorter thereby creating higher payments for living expenses.

So if you wanted to produce a higher income in the earlier years and have a more stable but longer income in later years, you could perhaps invest in an account based allocated pension initially and switch to an account based market linked income stream later.

Alternatively, you could invest in an account based income stream now and draw income at a level closer to the minimum and use a smaller part of your money to invest in a short term fixed term income stream to provide additional funds for living expenses in the shorter term.