

# *Maintaining your Lifestyle*

Retirement income in plain english



## *What is retirement income?*

During your working life you receive regular income in the form of a salary or business income. In retirement, this regular income stops, so you need to draw on your savings to meet your lifestyle costs. You set up your savings so you still receive regular payments, just like a salary. This is called a 'retirement income stream'. The type of income stream you can start at retirement depends on whether your savings are inside or outside of super.

The structure under which your retirement savings are held can have a significant impact on the amount of tax you pay and possible Centrelink entitlements.



### Account-based pension

Payment of your superannuation savings in regular periodic amounts is called an 'account-based pension' or 'allocated pension'. An account-based pension starts when you transfer your superannuation savings into a pension account, and start to draw down on the money in a series of regular payments (income).

You can elect how much income you want to receive (above the minimum) and can continue to receive regular payments until all of your super savings are exhausted, or you pass away. If you die, the balance of your savings can be paid to your nominated beneficiary or to your estate.

### How are your income and savings taxed?

If you are a member of a taxed super fund and you are 60 and over, all the income from your pension account is tax free. If you are under 60, a portion of your income may be tax free. Any amount that is taxable attracts a 15 per cent tax offset. Investment earnings and capital growth on your pension account are not taxed once you start your pension.

### Will you have enough?

Each year, Australians are living longer due to improvements in medicine and changes to lifestyle. Life expectancy for a couple aged 60 now is 90 years old and rising. So even if you plan your retirement income strategy using today's average life expectancy, there is a good chance you'll live beyond this age.

### Guaranteed income, for life

A new generation of products has been developed to provide you with a secure income during your retirement, every year for the rest of your life. Some of the guarantees are designed so that they continue to pay you an income even if your own savings run out, and – if you choose – it will continue to pay this income to your spouse even after you die. We can help you determine whether this type of product is right for your needs.

### Annuities

An annuity is the exchange of a portion of your savings for a series of regular fixed payments. Annuities can be purchased with superannuation savings or money outside of super.

There are three main types of annuities:

- **Fixed term pension** or annuity pays you regular income for a set number of years.
- **Life expectancy pension** or annuity pays you regular income fixed for a term that is based on your life expectancy.
- **Lifetime pension** or annuity pays you regular income for the remainder of your life.

You can purchase these types of income streams individually or jointly. If you choose to start the annuity jointly with another person, you can only use money outside of super to do so. Your income remains the same each year, unless you include an option called 'indexation'. Indexation allows you to increase your annual payments based on a set percentage, such as 5 per cent per year or the Consumer Price Index (CPI).

### How is your annuity taxed?

Your income is taxed based on whether you buy the annuity with super money or non-super money. For super money, if you are over the age of 60, all of the income is tax free. If you are under the age of 60, a portion of your income may be tax free. Any amount that is taxable attracts a 15 per cent tax offset. Once you purchase your income stream, you pay no tax on the lump sum you invest.



*Your success is our success...*

### Should you use superannuation savings?

If you are going to start an income stream with money that is not invested in superannuation, there is no age restriction on when you can do this. However, starting an income stream with 'non-super money' may limit your income stream options to certain types of annuities and you may not benefit from the tax savings offered by superannuation. Your non-super savings may be structured to provide you with regular income, such as using direct property to receive rental income or shares to receive dividends, but you will not be taking advantage of superannuation tax concessions.

The purpose of superannuation is to save for your retirement. The government provides a number of tax benefits and concessions to encourage you to build your super savings, including:

- Certain types of contributions to super may attract a tax deduction or tax offset.
- Investment earnings are taxed at a maximum of 15 per cent (rather than your marginal tax rate), and capital gains at a maximum of 15 per cent.
- Your super benefits can be paid as a tax-free pension or lump sum when you reach 60 and satisfy the criteria to access your funds.

To ensure that superannuation is used for its intended purpose, there are strict rules that determine when you can access your savings and when you can start a retirement income stream with your super.

### When can you access your super?

Generally, you can only access your super when you meet a condition of release, such as:

- you permanently retire from the workforce and reach a minimum age set by law, called your 'preservation age',
- you cease an employment arrangement on or after age 60,
- you reach age 65.

Depending on your circumstances, other conditions of release may apply.

Once you have satisfied a condition of release, you have a number of options:

- withdrawing your superannuation in full or in part,
- leaving your superannuation as it is, or
- starting an income stream.

Each of these options will have different consequences for your situation, such as the amount of tax you will pay, how long your money will last and your possible centrelink entitlements.

### *Think for a moment...*

Imagine the lifestyle you would like to live when you retire and start planning NOW!

To develop a retirement strategy that will meet your desired retirement lifestyle, talk to us. We'll work with you to put the right strategies in place and put you on the path to reaching your goals.



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