

# Challenger Guide to annuities

Secure your  
future with a  
safe, reliable  
income stream



## Table of contents

<b>About Challenger</b>	<b>1</b>
<b>Introduction to annuities</b>	<b>2</b>
How does an annuity work?	3
<b>Challenger annuities</b>	<b>4</b>
Products	5
Are they right for you?	6
Case study: Joe and Tina	7
<b>FAQs</b>	<b>8</b>

# About Challenger

Established in 1985 and listed on the Australian Securities Exchange (ASX:CGF) in 1987, Challenger Limited (Challenger) is an investment management firm focused on providing our customers with financial security for retirement.

We do this by investing to create wealth in the accumulation phase of superannuation, and by converting accumulated wealth into safe and reliable income streams for retirees.

Challenger's funds management business, Fidante Partners, works with boutique investment managers to offer a range of investment strategies across a variety of asset classes. Opportunities for investors to convert their savings into a series of regular payments to support them during their retirement are offered by Challenger's life company, Challenger Life Company Limited (Challenger Life).

Challenger Life is Australia's largest provider of annuities and a life company registered under the Life Insurance Act 1995 and regulated by the Australian Prudential Regulation Authority (APRA). Challenger Life guarantees the capital and interest in annuitants' regular payments, providing reliable income to over 60,000 investors.

## Providing our customers with financial security for retirement



Leading provider  
of annuities  
in Australia



AFA/Strategic  
Insight 'Annuity  
Provider of the  
Year' for ten  
years in a row

# Introduction to annuities

## What is an annuity?

In its most basic form, an annuity is a promise to provide a series of regular payments in return for a lump-sum investment.

Annuities have been around for a very long time – they go back as far as the Roman Empire when a Roman judge produced the first known mortality table.

But whilst annuities have been a successful way of securing a regular payment in retirement across the world, it is only in more recent times that annuities in Australia have evolved to be more suitable for our unique needs in retirement.

## Annuities in Australia

---

Every day 700 Australians turn 65 and with that figure only set to increase with the 'Baby-boomer' generation now hitting retirement, the growth in annuities in Australia has been dramatic.

In 2010, 53 lifetime annuities were purchased in Australia. In 2016 that number was over 9,000. Australian retirees are sending a clear message that ensuring secure, predictable income for life is now a top priority.

# Guide to annuities

## About annuities

### How does an annuity work?

---

An annuity works like a pay cheque in retirement. You invest some of your savings with a financial institution such as Challenger and Challenger then keeps your money safe while paying you guaranteed regular payments for either a fixed period or for the rest of your life depending on the type of annuity you choose.

This income is generally tax free if you are over 60 years of age and are investing your superannuation money. The payments can be made monthly, quarterly, half yearly or yearly.

Annuities are not an invest all or nothing type of product. Annuities typically only form a small part of a larger retirement plan, which usually includes an account-based pension.

An annuity is typically the guaranteed income component in your retirement plan as it's protected from the share market and interest rate movements. It works alongside the Age Pension (if you're eligible for it) to guarantee regular income for essential needs like food, clothing and housing.

With these essentials taken care of, you can have more flexibility with how you manage your account-based pension and other market-linked investments for discretionary spending like holidays and entertainment.

# Challenger annuities

Challenger now offers a range of annuities that give retirees the flexibility to choose the features most important to them.

With the increase in demand for annuities in Australia, the number of types of annuities to suit specific requirements has also increased. Challenger has been a leader in developing the range of annuities available, and offer the following types of annuities, each with their own features and benefits.

## **Term annuities**

Term annuities provide regular and guaranteed payments for a term chosen by you. The minimum term is one year and maximum term is 50 years. Annuity payments are for the duration of the term and stop at the end of the term.

## **Lifetime annuities**

Lifetime annuities provide regular payments for the rest of your life. If you choose, the payments may continue for the lifetime of a second person after you pass away. Lifetime annuities can help alleviate the worry that you will outlive your retirement savings.

## **Deferred lifetime annuities**

A deferred lifetime annuity is a lifetime annuity where the payments do not start immediately. For example, the product might be purchased at age 65 with payments commencing at, say, age 85 and continue for life, even if you live beyond 100.

# Guide to annuities

## About annuities

### Products

---

#### Challenger Guaranteed Annuity – ‘term annuity’

Investment term: 1 to 50 years

Minimum investment: \$10,000

Our term annuity provides a regular cash flow for your chosen investment term, regardless of how investment markets perform. Whether used on its own or with other investment structures like account-based pensions, it gives you the reliability and security of guaranteed payments with the flexibility to match your required level of retirement income.

The regular payments are made at your chosen intervals and include a fixed rate of return on your capital investment, plus any capital repayment you choose to have paid to you throughout the investment term.

#### Challenger Guaranteed Annuity (Liquid Lifetime) – ‘lifetime annuity’

Investment term: Your lifetime, or the lifetime of you and another person

Minimum investment: \$10,000

Our lifetime annuity is a secure investment that provides income for life. It can be used with other investment structures, like account-based pensions, to set you up with a level of dependable income that can last throughout your retirement.

Your payments are guaranteed, regardless of share market movements or interest rate fluctuations. You can also choose to index your payments so they keep pace with inflation. You will never outlive your savings with a lifetime annuity.

	Term annuity	Lifetime annuity
Minimum investment	\$10,000	\$10,000
Investment term	1 – 50 years	Your lifetime <sup>1</sup>
Secure, regular payments?	✓	✓
Nominate a beneficiary on death?	✓	✓

<sup>1</sup> Or your lifetime and the lifetime of a second person.

# Annuities

## Are they right for you?

Now you've seen how annuities work, and what type of annuities are available with Challenger, the big question is, 'Are they right for you?'

When you approach retirement, the questions start to come flooding in. How much retirement income can you sustainably maintain? How much money do you want to spend each year? How much risk do you want to handle in your portfolio?

The problem is, these questions can be difficult to respond to as trying to picture what you will need in your retirement can be like gazing into a crystal ball.

It may help to focus on what your retirement goals are in more concrete terms. Do you want to go on holiday when you retire? Are you looking forward to going out with your friends and family more often? Do you want to renovate your house? In all cases we recommend you speak to a financial adviser to determine whether an annuity is right for you.

### **Security and peace of mind**

If you're the sort of person who would value the security of a guaranteed regular income for a certain period of your life or for the rest of your life, no matter how long you live, then an annuity could be suitable for you.

# Guide to annuities

## Challenger annuities

Joe and Tina have been looking forward to their retirement for many years. Now they've both turned 67 and retired, they've calculated how much they think they will need to spend each year.

Joe and Tina: retirement profile	
Age	Both 67
Combined savings	\$500,000 in superannuation and \$50,000 in cash
Essential annual expenses	About \$39,000
Target annual income	\$60,000

### Achieving their retirement goals

Some travel, socialising more with their friends, and eating out more often are just a few of the freedoms Joe and Tina have been hoping for in their retirement. However, they're aware the bills still need to be paid, and they don't want to have to worry about these during their valuable years in retirement.

After speaking to their financial adviser, he recommends supplementing their Age Pension (from which they receive \$20,792 in the first year of retirement) by investing \$75,000 each of their savings into guaranteed lifetime annuities, providing them with a secure income of \$8,202 in the first year (indexed each year to rise with inflation).

Knowing they have the security of this combination of secure income, even if all of their other assets run out, gives Joe and Tina the freedom to invest \$350,000 of their savings into a range of investments via account-based pensions. They will draw the first year's payment of \$29,006 from these pensions, providing them flexibility and liquidity.

Including the income earned on the money they have in the bank, Joe and Tina's total income received in the first year of their retirement is \$60,000, achieving the target annual retirement income they are looking for.

**Please note:** This case study relates to a hypothetical couple, Joe and Tina, and is provided for illustrative purposes only. This case study is not intended to reflect any particular person's circumstances. Centrelink rates and thresholds are as at 20 March 2018. Challenger Guaranteed Annuity (Liquid Lifetime) is based on a quote as at 20 March 2018, purchased with superannuation money, using the Flexible income option with standard death benefit, maximum withdrawal periods and monthly payments which are indexed annually with inflation providing a first year payment of \$4,208 for Joe and \$3,994 for Tina.

# FAQs

Answers to common questions about annuities.

## **What happens to the money I invest in an annuity?**

When you buy an Annuity with Challenger, your capital investment goes into a fund along with those received from other Annuity investors. We also add to this fund from our own money.

This is known as the statutory fund, and all regular payments to our annuity investors are paid from this fund. Challenger will invest the assets of the statutory fund, subject to investment restrictions in the Life Insurance Act (which governs the provision of annuities in Australia) with the aim of ensuring that investment returns are sufficient to cover all payments due to our annuity investors.

There are two main investment objectives for the fund. The first is to achieve consistent returns on investments, and the second is to match the cash flow in from investment returns with cash flow out to our annuity investors. We do this so that all present and future guaranteed payments can be made to all annuity investors.

## **How safe are annuities?**

Challenger Life is regulated under the Life Insurance Act and the prudential standards made under it. These prescribe minimum capital and solvency requirements, for Challenger as well as for the annuity business it writes. The Australian Prudential Regulation Authority (or APRA for short) actively supervises Challenger's compliance with these requirements, which are designed to ensure that we can meet our obligations to investors today and into the future.

We have strict policies and plans in place to ensure our capital does not fall below the required minimum required by APRA, but in the unlikely event it did, they will take appropriate enforcement action to safeguard the interests of our annuity investors.

# Guide to annuities

## FAQs

### What fees and costs are involved?

There are no fees or charges payable to Challenger. Our costs are taken into account when setting the amount of your regular payments. You can, however, agree to the payment of adviser service fees with your financial adviser and authorise us to pay those fees to the Australian Financial Services Licensee who supervises your financial adviser (or your financial adviser directly if they are the licensee). Where you do so, the amount of your regular payments is reduced accordingly.

### Can I withdraw my money from a term annuity before the end of the term?

You can withdraw from your fixed term annuity before the end of the term. However, as the annuity is designed to be held until the end of the term, if you withdraw early, you may receive back an amount less than the amount you originally invested, even after taking into account any payments you've already received.

### What happens to my annuity if I die before the term is up?

For a fixed term annuity, your estate<sup>1</sup> or beneficiaries generally have the option to either continue to receive payments until the end of the term or withdraw the annuity and have it paid as a lump sum. The withdrawal value may be less than the original amount invested, even after taking into account any payments already received.

### What about withdrawals and death benefits from my lifetime annuity?

With Challenger's Lifetime Annuity, if the regular income option is chosen, a withdrawal value and death benefit is available for the first 15 years. If the flexible income option is chosen, then a withdrawal value and death benefit is available for a chosen period of between one year and a period based on your life expectancy (capped to a maximum of 27 years). If the enhanced income option is chosen, then no withdrawal or death benefit is available.

Read the relevant PDS or speak to a financial adviser for more information.

### How are annuities assessed for tax?

If you purchase your Annuity with money rolled over within the superannuation system, the regular payments you receive will be tax free for those age 60 and above.

If you bought your annuity with non-superannuation money, the regular payments you receive may be split into two components for tax purposes, a tax-free amount and an assessable amount which is included in your assessable income and may be subject to tax.

<sup>1</sup> If the annuity is purchased with superannuation money, the estate must receive a death benefit payment as a lump sum.

Speak to your financial adviser, visit [www.challenger.com.au](http://www.challenger.com.au) or call 13 35 66 (from 8am to 6pm AEST, Monday to Friday) for more information.

The information in this booklet is current as at 1 May 2018 and is provided by Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger), the issuer of Challenger annuities. It is provided for information purposes only and is not intended to be financial product advice. It does not take into account any person's objectives, financial situation and needs. Before deciding whether to acquire or continue to hold an annuity, it is important to consider the current product disclosure statement (PDS) for the applicable annuity (available from [www.challenger.com.au](http://www.challenger.com.au)) and the appropriateness of the annuity (including the risks) to your circumstances. Challenger's obligation to make guaranteed payments under any Annuity is a contractual obligation and is subject to the terms and conditions of the Annuity and the Life Insurance Act (Act). The payment obligation of Challenger is limited to the available assets of Challenger's Statutory Fund No 2, except if otherwise provided by the Act. Additionally, Challenger is not authorised to give taxation or social security advice. It is strongly recommended that investors obtain professional advice (including taxation and social security advice, if applicable) before making a retirement investment decision. Certain statements in this booklet relate to future matters. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievement to be materially different from those expressed or implied in this booklet. Neither the Challenger Group nor any company within the Challenger Group guarantees the performance of Challenger Life's obligations or assumes any obligations in respect of annuities issued by Challenger Life. In preparing this booklet, Challenger Life has relied on publicly available information and sources believed to be reliable; however, this information has not been independently verified. While due care and attention has been exercised in preparing this booklet, to the maximum extent permitted by law, Challenger Life gives no representation or warranty (express or implied) as to its completeness or reliability. Where a person acquires or holds annuities, Challenger Life and its related parties will receive the fees and/or other benefits disclosed in the relevant PDS. Neither Challenger Life, its related entities nor their employees receive any specific remuneration for any advice provided. Financial advisers, however, may receive fees or commission if they provide advice to you or arrange for you to invest in a Challenger annuity. Some or all Challenger Group companies and their directors may benefit from fees, commissions and other benefits received by another Group company.

**Challenger Life Company Limited**

5 Martin Place  
Sydney NSW 2000  
Telephone 02 9994 7000  
Facsimile 02 9994 7777