Illustrator
User guide

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challenger

Contents

Introduction

Introduction

What does the Illustrator do?

The Retirement Illustrator assists you with understanding how a comprehensive lifetime portfolio may change a client's retirement outcomes. The Illustrator uses information you enter (such as your client's personal information) to:

- show the composition of retirement income over time from superannuation savings, Age Pension entitlements (note, the Illustrator does not take into account any other Social Security benefits) and other investments;
- demonstrate how combining a lifetime income stream into a retirement portfolio can help to manage the impact of markets on retirement income;
- illustrate how long retirement income is likely to last in different market scenarios;
- highlight the impact inflation can have on retirement income;
- show how choices made today can impact future income;
- provide estimates of the pre-tax value of a portfolio over time. You can choose to illustrate the amount payable on voluntary withdrawal or the amount payable in the event of death; and
- produce a lifetime retirement portfolio illustration which you can give to your clients as part of your own advice
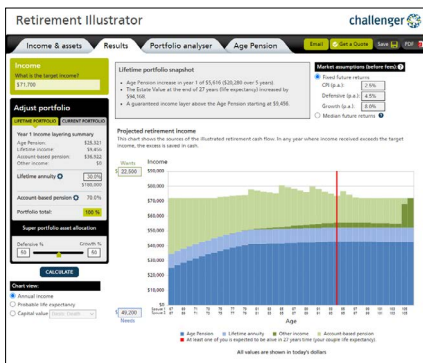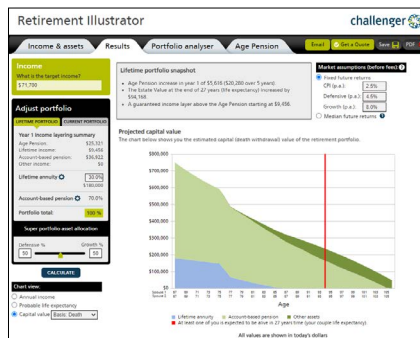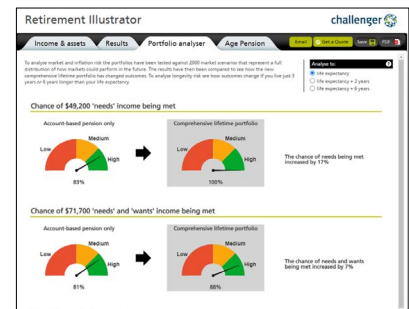
Results   **Results**   **Portfolio analyser**

The Age Pension Illustrator assists you with understanding how a client's Age Pension entitlements may change when using a comprehensive lifetime portfolio. The illustrator uses information you enter to:

- Estimate Age Pension entitlements
- Show how incorporating a lifetime income product can change Age Pension outcomes
- Produce an illustration which you can give to your clients as part of your own advice

Age Pension
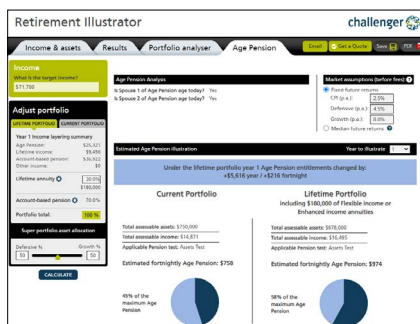
Who should use the Illustrator?

The Illustrator provides illustrations for people aged between 60 and 85 who have retired or are about to retire. The Illustrator is not suitable for persons who individually have more than the value of their remaining personal transfer balance cap in superannuation assets. The Illustrator assumes assets will be in retirement phase, and does not allow for having an accumulation balance in retirement.

How to use the Illustrator

How to use the Illustrator

1. Enter your client's information

Enter your client's personal and financial details, such as the amount of superannuation and assets and income that are assessable for Centrelink/DVA purposes. You can enter the details for up to two superannuation accounts.

Quick tip

By clicking the ⚙ next to each asset or income type you can change the default return assumptions used on the results tab.

Quick tip

When entering a client's date of birth, if their birthday is 29 February you may receive an error. Entering a birthday of 28 February or 1 March will avoid this.

2. Illustrating an existing account-based pension

You can enter the details for up to two superannuation accounts per person. Where your client does not have an existing account-based pension it is assumed that the superannuation account is used to commence a new account-based pension at the start of the forecast. If your client has already retired and has an existing account-based pension you can illustrate the existing income stream by entering the details. You can enter the details for up to two account-based pensions. In the lifetime portfolio the annuity will only be purchased using a person's first account-based pension assets.

Quick tip

Only select 'Deduction basis' where your client has a grandfathered pre-January 2015 Account-based pension.

Quick tip

Enter the current payment to be used in the Age Pension Income Test in year 1. In the comprehensive lifetime portfolio if the annuity is sourced from the ABP this current payment amount is reduced by the first year annuity payment.

3. Enter the target retirement amount

Enter the amount of income your client wants to receive during retirement. The amount entered must be above the minimum level shown.

The minimum target income is calculated by adding the first years:

- Age Pension entitlement;
- superannuation minimum payment amount from the account-based pensions;
- lifetime annuity payment; and
- other income such as interest and rental income.

Quick tip

The Illustrator defaults to the ASFA 'comfortable' Retirement Standard income amount.

In the Retirement Illustrator you can split the target income between needs and wants by typing in the amount directly into the 'Needs' or 'Wants' box on the Results tab.
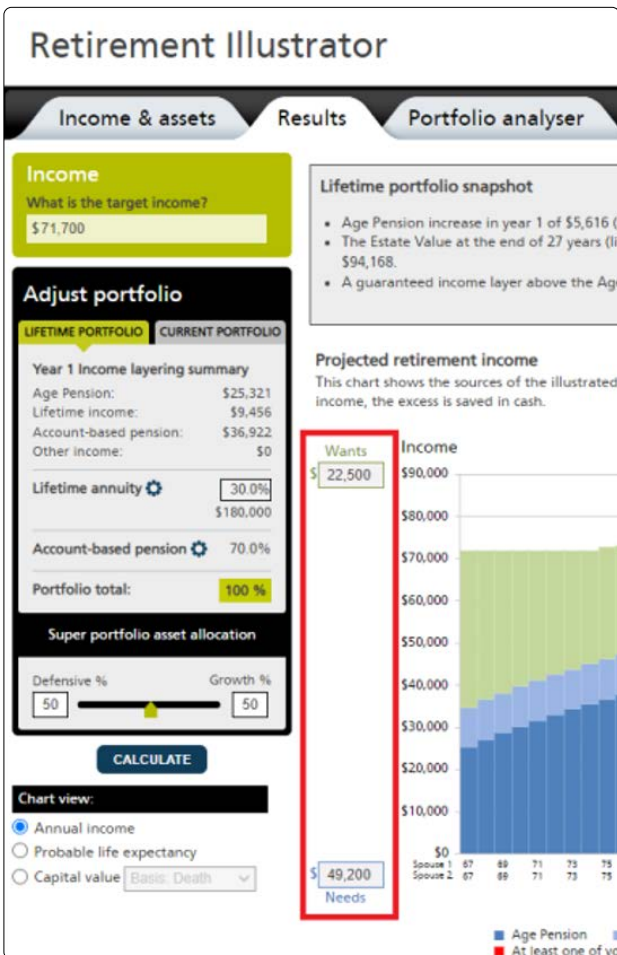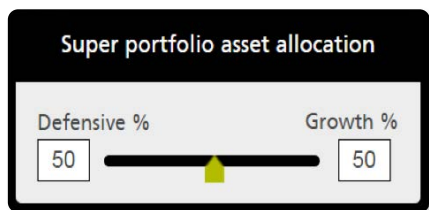

Quick tip

The allocation to the annuity can be increased manually up to an amount of 80%.

4. Set the clients superannuation portfolio asset allocation

Set the asset allocation by moving the slider (moves in 5% increments) or by typing in the allocation (1% increments). The super portfolio asset allocation does not include assets outside super such as financial investments, investment properties or term deposits/cash.

Quick tip

If the lifetime annuity is sourced from the account-based pensions then the asset allocation used for all account-based pensions in the comprehensive lifetime scenario is re-weighted to maintain the super portfolio asset allocation. If the asset allocation cannot be maintained a warning will be shown to the user advising the difference in risk profile between the current and comprehensive lifetime scenario illustrations.

This asset allocation is the growth/defensive mix assumed for all account-based pensions illustrated in the current account-based pension only scenario. In the comprehensive lifetime scenario where the annuity is sourced from superannuation assets the asset allocation for account-based pensions is adjusted to maintain the risk profile across all superannuation assets.

A lifetime annuity is assumed to be a 100% defensive asset unless a market-linked payment option is selected in which case it is assumed to have a growth and defensive allocation defined by the sum of the index allocation. The asset allocation applying to all account-based pensions in the comprehensive lifetime scenario is re-weighted to maintain the initial super portfolio asset allocation entered on the 'Results' tab. See the Assumptions guide for more information.

Here is an example of how the asset allocation works between the two portfolios with a 50% Defensive/50% Growth portfolio asset allocation when comparing the current scenario with investment in a lifetime annuity with a CPI-linked payment option:

Super portfolio $400k	Account-based pension only portfolio	Comprehensive lifetime portfolio ($100,000 allocation to lifetime annuity with CPI-linked payment option)
Lifetime annuity (Growth)	n/a	$0 (0% x $100,000)
Lifetime annuity (Defensive)	n/a	$100,000 (100% x $100,000)
Account-based pension (Growth)	$200,000	$200,000 ($200,000 - $0)
Account-based pension (Defensive)	$200,000	$100,000 ($200,000 - $100,000)
Total asset allocation	Defensive: 50% ($200k) Growth: 50% ($200k)	Defensive: 50% ($200k) Growth: 50% ($200k)
Account-based pension asset allocation	Defensive: 50% ($200k) Growth: 50% ($200k)	Defensive: 33% ($100k) Growth: 67% ($200k)
Lifetime annuity asset allocation	n/a	Defensive: 100% ($100k) Growth: 0% ($0k)

5. Changing the illustrated lifetime annuity features

You can change the default Lifetime annuity settings by clicking on the settings cog in the 'Adjust portfolio' section in the Results or Age Pension tab.

You can illustrate other product options including deferred payment, market-linked payment options and enhanced income options, as well as other annuity provider's rates of payment by using the custom pricing function.

Quick tip

The default lifetime annuity settings are:

• flexible income (immediate payments); and

• payments indexed with inflation (CPI).

6. Changing the Account-based pension fees

Quick tip

To change the Account-based pension fees the Lifetime % from must be set to Account-based pension (see section 7 below).

7. Illustrating a non-superannuation lifetime annuity

By default the % allocation to the lifetime annuity is taken out of the first account-based pension.
Following the steps below, you can change this so that the % allocation to the lifetime annuity is taken out of the term deposit/cash asset.

Step 1

Ensure that there is money in the 'Term deposit/cash' asset on the Income and assets tab.

Quick tip
Entering each person's superannuation balance in Additional superannuation assets and $0 in Superannuation assets will default the annuity to be taken out of the Term deposit/cash asset.

Step 2

Go to the annuity settings on the results tab and change the Lifetime % from field to Term deposit/cash and click apply settings. You will notice the portfolio heading change from Account-based pension to Term deposit/cash.

Note: if the first account-based pension for each person has zero balance and there is money in the 'Term deposit/cash' asset on the Income & assets tab then the % allocation to the lifetime annuity defaults to be taken out of the *Term deposit/cash* asset.

Understanding the results

Understanding the results

1. Understanding the Annual income chart

This chart shows you the sources of income over time.

You can switch the chart view between the comprehensive lifetime portfolio and the current non-lifetime portfolio here

Summary of the client's change in Age Pension in year 1, their estate value and lifetime income above the Age Pension for the comprehensive lifetime portfolio compared to the current non-lifetime portfolio

You can change the market conditions being illustrated here. You can choose to illustrate a fixed future return scenario or a median return scenario. The Median returns scenario illustration uses returns which vary each year based on the median future market returns from the stochastic asset model for each asset class. You can change the market conditions being illustrated by clicking on the question mark. See the Assumptions guide for more details

This is the point where the account-based pension no longer has a value (**light green**). At this point capital from the Term deposit/cash (**dark green**) will be used to supplement income (if available), so that the target income is maintained

If the lifetime annuity payment option is set to '0%', 'RBA cash linked' or 'Partial CPI' the payments over time will reduce in 'today's dollars' due to the impact of inflation. If a market-linked payment option is selected then depending on the index selected payments may be expected to grow in real terms over time, however this is not guaranteed and payments can reduce in 'today's dollars' for example due to period of high inflation or poor market returns

By moving your mouse over the chart you can see a comparison of portfolio values at any point in time

The red line on the chart shows life expectancy, that is the age(s) to which we expect an average Australian of the person's age and gender will survive to (or at least one of the persons in a couple to survive to), calculated based on Australian life tables 2015-17 with 25 year improvement factors

What is happening here?
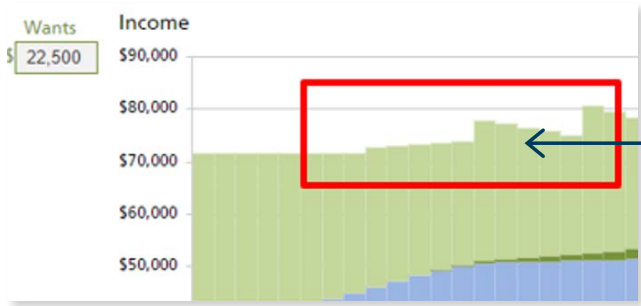
If the results show income exceeding the target income, this is usually due to the superannuation minimum payment rules requiring the client to take higher income in that year. Any excess income in a year after spending the target income is assumed to be saved in non-super Term-deposit/cash

2. Understanding the Capital value chart

This chart shows you the projected capital values of either portfolio over time.

You can switch the chart view between the comprehensive lifetime portfolio and the current non-lifetime portfolio here

You can change the market conditions being illustrated here. You can choose to illustrate a fixed future return scenario or a median return scenario. The Median returns scenario illustration uses returns which vary each year based on the median future market returns from the stochastic asset model for each asset class. You can change the market conditions being illustrated by clicking on the question mark. See the Assumptions guide for more details

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The red line on the chart shows life expectancy, that is the age(s) to which we expect an average Australian of the person's age and gender will survive to (or at least one of the persons in a couple to survive to), calculated based on Australian life tables tables 2015-17 with 25 year improvement factors

You can switch between the voluntary value and death (estate) value here
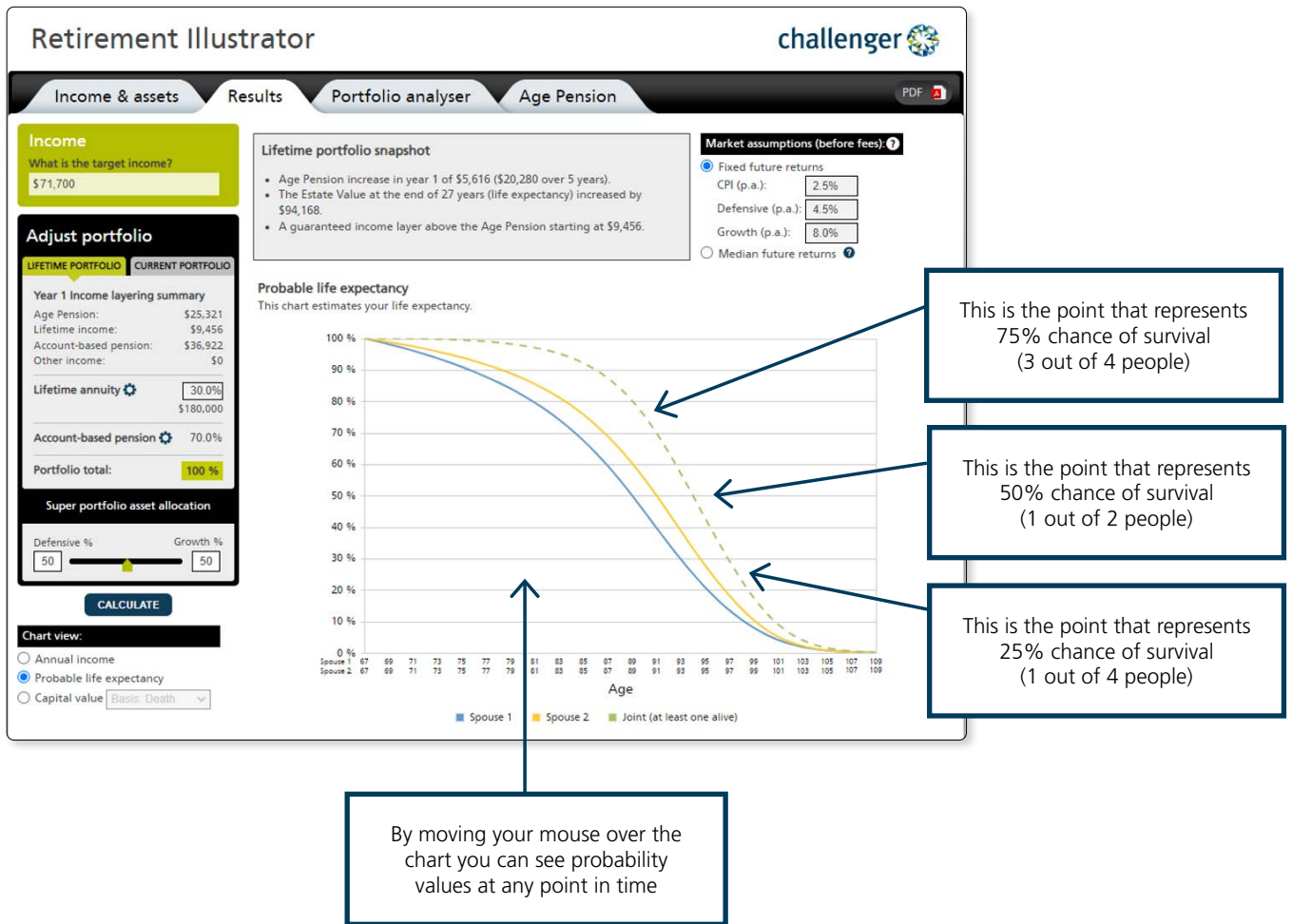

What is happening here?

When you are illustrating the 'Flexible' Product option for a lifetime annuity, the dip is where the 100% death benefit ends. From this point forward the death value equals the maximum voluntary withdrawal value

3. Understanding the probable life expectancy chart

This chart shows you the probability of survival at each age based on the Australian Life Tables (ALT) produced by the Australian Government Actuary. The mortality rates used are the ALT 2015-17 tables with 25 year improvement factors, allowing for the fact that people are living longer due to improvements in medicine, science and nutrition.

This is the point that represents 75% chance of survival (3 out of 4 people)

This is the point that represents 50% chance of survival (1 out of 2 people)

This is the point that represents 25% chance of survival (1 out of 4 people)

By moving your mouse over the chart you can see probability values at any point in time

4. Analysing the portfolios

Because in reality investment returns are never constant, the Portfolio analyser stress tests both portfolios using returns that change over time.

To do this, we model and analyse 2,000 market scenarios over 40 years (stochastic modelling). Each market scenario has different asset class returns and related market indicators such as the level of inflation. The market scenarios are provided by Moody's Analytics and are generated using the Moody's Analytics Scenario Generator. The scenarios are designed to be representative of how real-world markets could behave in the future.

The stress test enables a direct comparison of how a comprehensive lifetime retirement portfolio performs compared to an Account-based pension only portfolio under a range of different market conditions.

By default the Portfolio analyser shows the chance of meeting 'needs' and 'Needs and Wants' for each illustrated portfolio to life expectancy. To analyse the impact of longevity risk you can choose to see how the outcomes would change if the persons lived just 3 years or 6 years longer than their life expectancy.

Quick tip

A low chance shown on the dials is an indication that the target income is likely to be unsustainable. To improve results try reducing the target income.

This shows you the proportion of times each portfolio provided the 'needs' income up to selected timeframe (e.g. dial result of 62% means that 1,240 of the 2,000 stochastic simulations met the target income over the timeframe)

This shows you the difference in outcomes between the portfolios

This shows you the proportion of times each portfolio provided the 'needs' & 'wants' income up to selected timeframe (e.g. dial result of 77% means that 1,540 of the 2,000 stochastic simulations met the target income over the timeframe)

This chart shows the median estate value of each portfolio based on the stochastic simulations

By moving your mouse over the chart you can see a comparison of portfolio values at any point in time

Understanding Age Pension outcomes

1. Age Pension analysis and illustration

This section shows you the estimated Age Pension entitlements.

You can see whether each person is of Age Pension age at the start of the forecast

You can change the market conditions being illustrated here. Click the question mark to see the investment return assumptions used

Age Pension Analysis

Is Spouse 1 of Age Pension age today?   Yes
Is Spouse 2 of Age Pension age today?   Yes

Market assumptions (before fees): ❓

● Fixed future returns
　CPI (p.a.):　2.5%
　Defensive (p.a.):　4.5%
　Growth (p.a.):　8.0%
○ Median future returns ❓

Estimated Age Pension illustration　　　　　Year to illustrate 1 ▾

You can change the year being illustrated below by clicking here

Under the lifetime portfolio year 1 Age Pension entitlements changed by:
+$5,616 year / +$216 fortnight

Current Portfolio

Total assessable assets: $750,000
Total assessable income: $14,871
Applicable Pension test: Assets Test

Estimated fortnightly Age Pension: $758

45% of the maximum Age Pension

Lifetime Portfolio
including $180,000 of Flexible income or Enhanced income annuities

Total assessable assets: $678,000
Total assessable income: $16,495
Applicable Pension test: Assets Test

Estimated fortnightly Age Pension: $974

58% of the maximum Age Pension

The means test that is driving the Age Pension entitlement in the year selected is shown for each portfolio

Estimated Age Pension (today's dollars)	Year 1	Year 2	Year 3	Year 4	Year 5	5 year cumulative	10 year cumulative
Current portfolio	$19,705	$22,266	$24,632	$26,920	$29,053	$122,576	$296,483
Lifetime portfolio	$25,321	$27,063	$28,649	$30,196	$31,627	$142,856	$320,156
Lifetime portfolio difference	$5,616	$4,797	$4,017	$3,276	$2,574	$20,280	$23,673
% Change	28%	22%	16%	12%	9%	17%	8%

This shows the percentage change in estimated Age Pension using the Lifetime Portfolio compared to the Current portfolio

Quick tip

All of the Illustrator's results are shown in 'today's dollars' (i.e. showing today's purchasing power by discounting for future price inflation) except for Total assessable assets and Total assessable income which are not discounted.

2. Saving and retrieving illustrations

If you access the Illustrator via Challenger Online you are able to save and retrieve illustrations.

Click to save
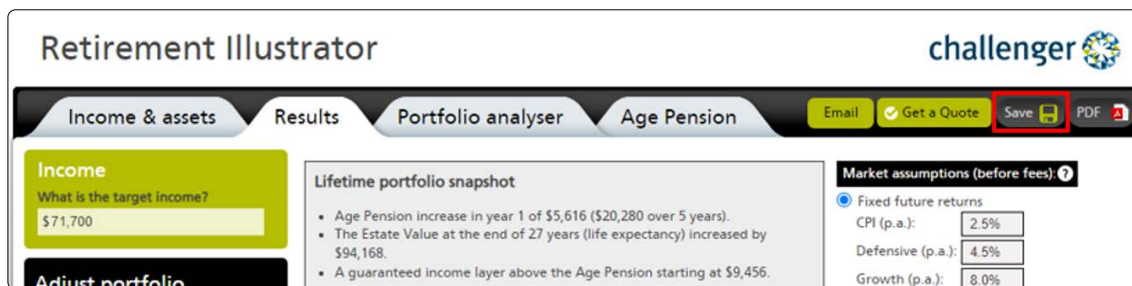
Click to retrieve
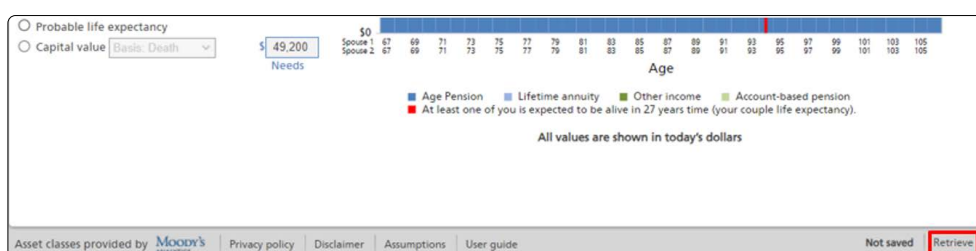
Then select the illustration to retrieve or manually enter your unique reference number shown on the bottom of a PDF report.
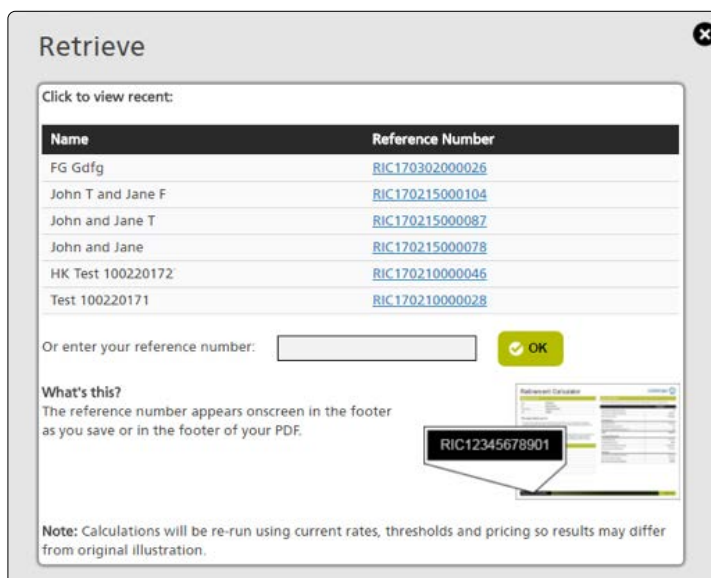
We're always here to support you and your clients

If you require more information about the Illustrator, please contact one of the following teams or view the Assumptions guide.

- Log in, or register for AdviserOnline at **adviseronlineportal.com.au**
- Speak to your **Challenger BDM**
- Call Adviser Services on **13 35 66**