Challenger Liquid Lifetime (Market-linked payments)

Planning to enjoy the fruits of their labour without running out of juice

Discover how investing in a market-linked lifetime annuity can help you to spend with confidence in retirement.

Client:	Michael and Monica	**Assets:**	$600,000 each in account-based pensions	**Goals:**	To feel assured that they can continue spending $72,000 p.a. for the rest of their life
Age:	Both aged 67		$20,000 in personal assets		

Michael and Monica are a happy couple who've recently retired at 67. They own their own home and are free of debt. They've worked hard for this and are looking forward to having a whole lot more time to do the things they love. They're active, interested and involved with life.

Michael and Monica are focused on what they call a 'care-free' lifestyle in retirement. They estimate this will cost them about $72,000 p.a. indexed against inflation.

The possibility of running out of income in retirement is simply unthinkable for this lively pair. They're in good health and want to know that their lifestyle is protected even if (hopefully) they live a very long time.

They ask their financial adviser to help them with a plan to make their dream a reality.

Advice worth bottling

Plan A: The first strategy their financial adviser modelled and presented to Michael and Monica aligns with their initial idea of simply rolling over their superannuation to account-based pensions.

Drawing $72,000 p.a. (adjusted for inflation) from all sources gives them a projected income of about 27 years from their account-based pensions. That's close to the couples' predicted life expectancy (when one, or both are expected to be alive).

In this scenario, once Michael and Monica's account-based pensions are fully drawn-down, they'd be dependent on the Age Pension alone for all of their income. That's not a situation either is comfortable with.

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Plan B: Their adviser's second scenario allows Michael and Monica to draw their desired level of income each year, but also provides them the assurance of future income, on top of any Age Pension they may be eligible to receive, for the rest of their lives. This comprehensive lifetime income strategy involves a 30% allocation from Michael and Monica's account-based pensions to market-linked lifetime annuities (with an asset allocation consistent with their current risk profile).

This alternative strategy is projected to fund their desired level of income much longer – past their hundredth birthdays!

The market-linked annuity continues to provide additional payments for as long as Michael and/or Monica live, indexed each year with market returns, ensuring that they never have to depend on the Age Pension alone.

This alternative strategy helps Michael and Monica be confident in their retirement spending.

A key benefit of this allocation to market-linked lifetime annuities for Michael and Monica is retaining exposure to growth assets, in accordance with their risk tolerance. This allows the potential for income growth over time. That said, they both understand that with the potential for growth comes some volatility in income payments, including the possibility of payments reducing.

Their adviser projects that payments from Michael and Monica's market-linked lifetime annuities start at $14,517 p.a. combined in year 1 and increase to $28,191 p.a. (in real terms) combined by year 30 based on their Conservative balanced (50/50 growth/defensive) risk tolerance.

These income payments will continue for as long as Michael and/or Monica live. That's a big difference to the account-based pension strategy. That strategy would project Michael and Monica's account-based pensions to be fully depleted by year 27 – leaving them dependent on the Age Pension alone for all their retirement spending.

Improving their financial wellness

The comprehensive lifetime income strategy ensures that they will have income from various sources to meet expenses.

Their income for their first year of retirement would be:

- $14,517 combined from their market-linked lifetime annuities
- $57,483 from their account-based pensions

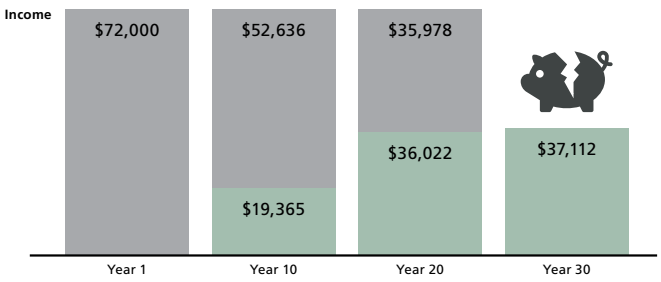
With a market-linked lifetime annuity Michael and Monica can have:

- **higher confidence** their $72,000 p.a. lifestyle will last for life
- peace of mind receiving **an income for life that indexes with investment markets** in addition to any future Age Pension

Market-linked payments have the potential for growth over time

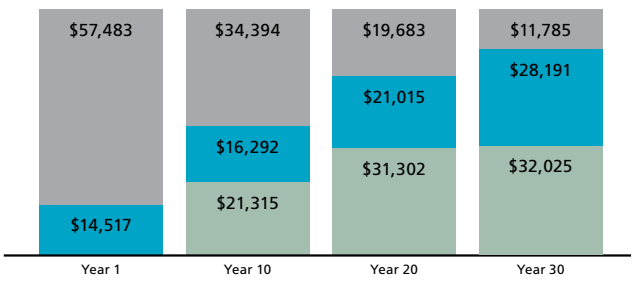
Keep in mind, payments are less predictable because they move up or down based on the performance of the market index

Account-based pension (ABP) strategy



ABP has run out after 27 years (life expectancy) and are relying solely on the Age Pension.

Comprehensive lifetime strategy



Lifetime income payments, 50:50 index return, providing income for life. Plus Age Pension boost early in retirement and the ABP lasts longer.

Account-based pension
Market-linked lifetime annuity
Age Pension

Modelling each of the strategies under a range of market outcomes paints a picture of the likely impact on total income at life expectancy.

In the bottom 10% of simulated outcomes their account-based pensions are fully depleted which would leave them dependent on the Age Pension. But, with allocations to market-linked lifetime annuities they have income of $52,090 p.a. In the median scenario Michael and Monica have income in the account-based pension only strategy of $51,180 but income of $72,000 p.a. (their desired level of retirement income) from the comprehensive lifetime strategy. In the top 10% of simulated outcomes their desired level of income of $72,000 p.a. is met with both strategies.

Market-linked lifetime annuities – refreshingly innovative

Challenger's Liquid Lifetime (Market-linked payments) provide a regular monthly income for life with the potential for growth over time while accepting some downside risk. However, payments are less predictable because they move up or down based on how the chosen market index performs.

A choice of five different indexation payment options lets you match the payment allocation to your risk appetite – across both defensive and growth. All the available options are free of investment management fees.

And there's the flexibility to switch the indexation payment options annually, at no cost.

The market-linked lifetime annuity has been designed to complement other retirement investments and sources of income such as account-based pensions and the Age Pension.

Investing in a lifetime annuity may even help boost Age Pension entitlements and provide more out of your retirement savings. Although in periods of strong performance, Age Pension benefits may reduce to reflect and balance the higher income received.

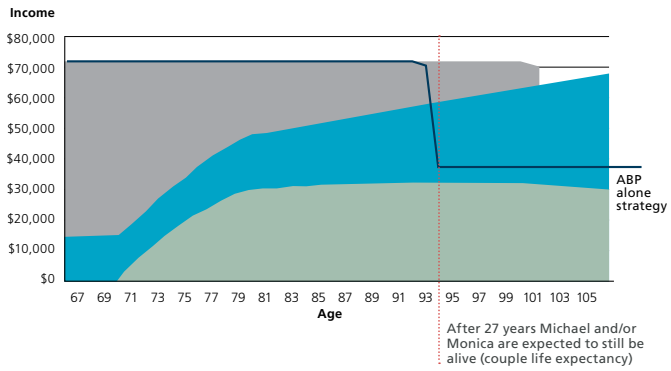
While the market-linked lifetime annuity is designed to be held for life, it includes a long period (based on life expectancy) where you have the flexibility to access a lump sum if circumstances change.[1]

What's more, it has a money back guarantee upon early death. If death occurs during the first half of the withdrawal period, 100% of the amount invested will be repaid to your estate or nominated beneficiaries.

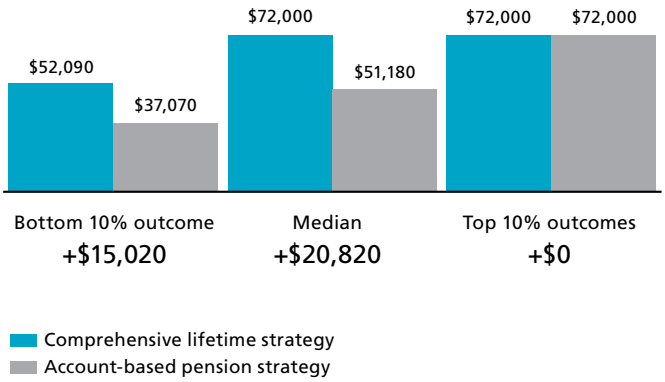
Helping to maximise retirement income

Retirement income outcomes with ABP and 30% allocation to lifetime income stream versus ABP alone

Retirement income outcomes



Difference in retirement income at life expectancy under a range of market outcomes



We're here to support you

For more information on lifetime annuities:

- Speak to your financial adviser
- Visit **challenger.com.au**
- Call the Challenger Investor Services team on 13 35 66

1 The lump sum is impacted by movements in interest rates, the chosen index, and an allowance for the cost to us of breaking the investment, and cannot exceed the maximum voluntary withdrawal value.

Source: Challenger Retirement Illustrator beta version (09/09/2021) using Social Security rates and thresholds effective 1 July 2021. 30% allocation to market-linked lifetime annuity with Conservative balanced payment option (50% growth, 50% defensive), pricing as at 10/09/2021. Median returns and inflation used for retirement income outcomes chart calculated as median annual return for each future year across 2,000 return simulations. Difference in retirement income determined by analysing range of income outcome experienced across 2,000 simulations of retirement. 2,000 return and inflation simulations provided by WTW. $72,000 p.a. desired income increasing annually with price inflation, any excess income above spending in a year is assumed to be saved in cash outside super. Amounts shown are in today's dollars. See Challenger Retirement Illustrator for default fee assumptions and methodology guide.