



How Maree sets up the lifestyle she wants in retirement

# Maree

**Client:** Maree  
**Age:** 67, single

**Assets:** Homeowner –  
\$450,000 superannuation,  
\$20,000 personal assets and  
\$50,000 cash

**Goals:** A comfortable retirement lifestyle and income security for her later years.

At age 67, Maree has spent her life working hard and looking after others. She is debt-free and hopes her savings, combined with the Age Pension (she is currently receiving \$4,896 p.a.), will pay her way in retirement. She expects to spend \$30,000 each year to cover basic expenses in retirement. But to enjoy things like holidays, meals out and entertainment, she estimates her annual income will need to be closer to \$45,000.

Based on life expectancy figures, Maree can expect to be retired for over 23 years<sup>1</sup>. At the moment, Maree is enjoying good health and she's worried she will outlive her savings. She is worried that the Age Pension alone won't cover her basic expenses. An extra source of secure, regular income would

give Maree peace of mind that she won't be left with a gap between her income and cost of living. She has thought about investments but has concerns about losing money to a volatile share market.

## Her financial adviser's recommendations

After talking things through with her financial adviser, Maree converts her super into a combination of income streams. This solution gives her the income and peace of mind she's looking for and the flexibility to access money if she needs it.

1 Estimate calculated using Australian Life Tables 2015-17 with 25-year mortality improvements as provided by the Australian Government Actuary.

# Challenger Case study

## Income stream 1

Maree allocates 30% (or \$135,000) of her super to a Challenger lifetime annuity. This is a secure investment providing Maree with guaranteed payments for the rest of her life. The payments will top-up her Age Pension income and help her cover basic living expenses.

Also, as only part of the amount invested into a lifetime annuity is counted under the assets test, Maree may see an increase in her Age Pension entitlement.

## Income stream 2

With the remaining 70% (or \$315,000) of her super, Maree invests in an account-based pension. Maree can choose from a range of investments for her account-based pension, and change the amount she withdraws, subject to the Government's minimum requirements.

## Living life to the full

Thanks to recommendations from her financial adviser, Maree has enough income to meet basic expenses and enjoy more of the things she's looking forward to in retirement.

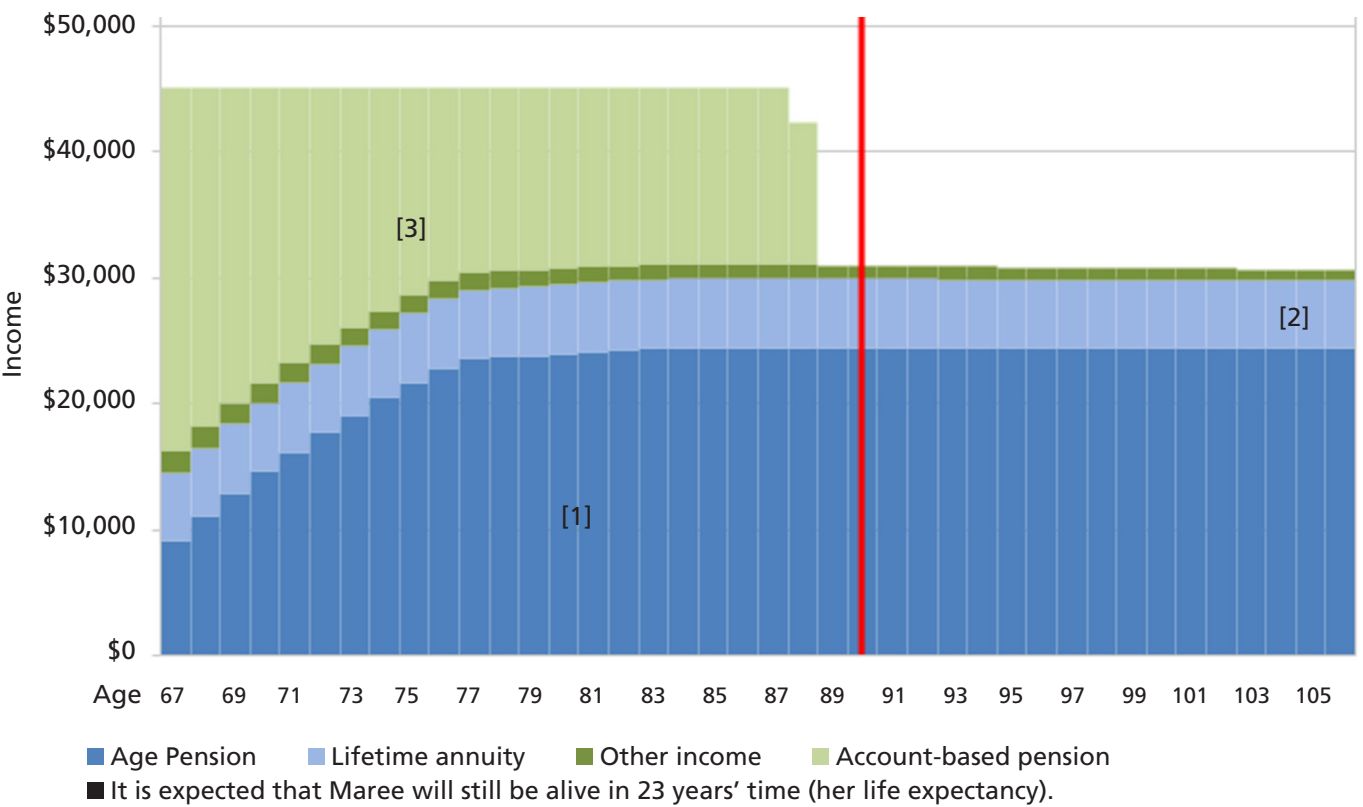
After restructuring her super, Maree's income for her first year of retirement looks like this:

- \$5,455 income from her Challenger lifetime annuity
- \$28,737 from her account-based pension
- \$9,108 from the Age Pension
- \$1,700 interest on money in the bank

Maree's income streams, combined with the interest she earns on money in the bank, provide the \$45,000 budget she has planned for during her first year of retirement.

Payments from her account-based pension (income indicated by [3] below), will allow Maree to spend on extras from time to time, until that money runs out.

The secure income from the Age Pension[1] and the lifetime annuity[2] provide her with guaranteed income which can help pay for her basic living expenses during her lifetime.



The calculations above are from Challenger's Retirement Illustrator tool as at 25 September 2020 (accessible to financial advisers only). Unless otherwise stated, the Illustrator does not take into account the short term measures announced as part of the Commonwealth Government's economic plan in response to COVID-19 (as outlined in the Coronavirus Economic Response Package Omnibus Bill 2020) including payments to support households, early release of superannuation and temporary reductions in the superannuation minimum drawdown rates. Depending on an investor's situation and user inputs, this may impact illustrations provided in the Illustrator.

The Retirement Illustrator also contains the following assumptions:

**Government Age Pension:** The Government Age Pension amounts illustrated are based on current law. For the purpose of rates and threshold indexation CPI and AWOTE are assumed to be the same. Any future changes to legislation will alter the Age Pension amounts projected. It is important to note that the Government Age Pension amounts projected are illustrations only and are not a guarantee that a person will be entitled to the Government Age Pension. Eligibility for Government Age Pension entitlements will vary depending on personal circumstances, including the future value of investments and changes to marital status. To check eligibility for the Government Age Pension, go to [humanservices.gov.au](http://humanservices.gov.au).

**Continuance of life:** The Illustrator assumes the life/lives being illustrated do not die before the end of the illustration period. Where death occurs before the end of the illustration period the results will be different.

**Taxation:** The Illustrator does not calculate any tax payable on the projected regular retirement income or capital gains. Generally, once a person turns age 60 and retires, any income received from superannuation investments is tax-free. However, other investments not purchased with money rolled over within the superannuation system may be subject to tax. Where the annuity is purchased with non-superannuation money, tax may be payable on any lump sum withdrawal amount.

**Amounts are shown in today's dollars:** Results are shown in 'today's dollars'. This means illustrations take into account the impact of inflation between the time of the illustration and the future date, in order to show all figures in today's purchasing power.

**Assumed rates of return:** The illustrator assumes Account-based pension growth assets return 6.20% p.a. and defensive assets, 3.0% p.a. before management fees of 0.70% and 0.30% respectively. In addition, platform fees are assumed to be 0.50% and cash deposits return 3.40% p.a. Lifetime annuities is assumed to form part of defensive assets and to maintain an overall asset allocation of 50/50 growth/defensive (including the allocation to the defensive lifetime annuity), the asset allocation of the account-based pensions has been set accordingly.

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