

A photograph of a family of three walking through a field of wildflowers. An older man with glasses and a dark shirt is on the left, smiling. An older woman with short white hair and a blue shirt is in the center, also smiling. A young boy with dark hair, wearing a striped shirt and a backpack, is on the right, looking towards the woman. They are holding a wicker basket filled with white daisies and yellow flowers. The background shows a village with red-roofed houses and rolling hills under a warm, golden light.

Annuities in retirement

Annuities in retirement

Enjoy today, knowing you'll have an income you can rely on

Retirement is an exciting time, full of new possibilities. It's a chance to enjoy life on your terms with freedom to spend your time exactly as you please.

For most of us, when moving from work to retirement, you're switching from a regular pay cheque to relying on your super, savings, and maybe the Age Pension for income.

You may be wondering how to organise your finances so that:

- **your savings will last as long as you do;**
- **investment markets don't derail your retirement income plan; and**
- **you can keep up with inflation.**

In this guide, we'll explore a solution that can bring peace of mind and confidence in your retirement. Lifetime income streams such as lifetime annuities provide guaranteed regular income in retirement – similar to a pay cheque - and can be a great way to help manage your retirement cash flow.

This guide will give you an overview of some of the different types of annuities. You'll learn how they work, how they can help provide a regular income in your retirement, and where they might fit into your retirement planning.

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Why annuities

Add guaranteed regular income and diversification to your retirement portfolio

One of the benefits of having a job is knowing you're going to receive a certain amount of money at regular intervals.

Then in retirement, it's up to your savings to produce that income to pay your bills and enjoy life. The good news is you can still receive regular income in retirement.

When you have a lifetime annuity it'll help to stop you lying awake worrying about how your investments are performing, or whether you're going to run out of money

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Why annuities

How annuities work

An annuity is a financial product that guarantees regular income in retirement; either for the rest of your life, or for a specific period of time that you choose. You'll know how much your starting payment will be (and when it will be paid) so you can plan around your retirement 'pay cheque'.

Reasons to consider annuities include:

- **Guaranteed regular income for life or a chosen term.**
- **Peace of mind** – most annuities provide income you can rely on regardless of what share markets are doing or how investments are performing (unless you choose to link your payments to market movements).
- **Confidence to spend** - when you invest in an annuity, you'll generally know in advance how much income you'll receive each month or year. To give you extra comfort, some annuities allow you to link your payments to keep up with inflation.
- **Tax benefits** – annuity payments are tax-free if you use your super to invest and you're over 60.

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What types of annuities are available

Annuities can help give you the lifestyle you want

There are two main types of annuities, allowing you to choose the payment option that best suits your needs:

Lifetime annuities

Lifetime annuities will pay you a guaranteed regular income for the rest of your life. This can help you build a more resilient retirement portfolio.

To give you extra confidence that your annuity payment amounts will keep up with external financial situations, you might be able to link your payments to:

- the inflation rate, to help ensure your annuity protects you from the rising cost of living;
- changes in the Reserve Bank of Australia cash rate (whether it be an increase or decrease), so you can benefit from any future interest rate rises; or
- market performance, if you'd like to benefit from exposure to potential growth, while still accepting some downside risk.*

* For market-linked payments, only the first year's monthly income amount is guaranteed. After the first year, monthly payments will move up or down annually adjusting to the changes in your chosen indexation payment option.

Fixed term

Fixed term annuities provide income for a specific period, offering flexibility to align with your financial goals.

They provide the opportunity to earn a competitive rate on your savings from a secure investment. Your return on your investment is guaranteed, helping to give you confidence you can meet your saving or spending goals.

They are often used as an alternative to a term deposit* as they are not affected by the ups and downs of the share market.

* Annuities are not covered by the Australian Government's Financial Claims Scheme, which protects certain types of deposits of up to \$250,000 in the event that a bank, building society or credit union fails.

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How annuities can work with other types of income

Annuities work with your other retirement income sources

Annuities can work alongside other retirement investments and income sources, such as a pension from your super and the Age Pension from the Government. Like any kind of investing, spreading your money across a range of income-producing options, including annuities, can really help minimise disruption to your budget if one source doesn't perform as you were expecting.

For example, you might use a lifetime annuity to give you a safety net to cover all your essential expenses, and then use other income streams such as an account-based pension or distributions from other investments to top up your bank account to give you enough to create the lifestyle that suits you.

You don't need to choose between an account-based pension (or any other type of investment) and an annuity; you might put some money towards an annuity, while the rest stays in your super and other investments. Where an annuity can add value is providing an additional layer of protection because when your income payments are guaranteed for your lifetime, you can feel more confident about your retirement spending now.

A financial adviser can help you work out the right combination of an annuity, account-based pension, Age Pension and other investment income to make sure you're comfortable.

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Making annuities work for you

Customise your annuity in a way that suits you

An annuity can be tailored in a way to meet your life stages and income needs during retirement.

For example, many retirees find they spend more in the early stages of retirement when they are more active and keener to tick off their bucket lists. Others don't like to spend too much up front and feel more comfortable taking a prudent approach so they can be sure they'll have enough to live on as they get older.

However you decide to approach your retirement savings, you can generally tailor an annuity to suit your needs.

- You can choose when you would like the annuity to start (if you've used your super to invest); it doesn't have to start as soon as you invest.
- Payments can generally be made monthly, quarterly, half-yearly or yearly – whatever suits you.
- You can receive the same amount during your chosen term, or you may be able to link your regular payments to inflation, the Reserve Bank of Australia cash rate or market performance.
- For fixed term annuities, you can also decide whether you'd like your investment paid back to you in one go when it finishes, or whether you want to run down the whole balance throughout the fixed term as part of your regular payments.
- For lifetime annuities, if your circumstances change, you might be able to access a lump sum from your annuity during a defined period that is based on your life expectancy.

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Common questions

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How do I buy an annuity?

You can buy an annuity using money from your super or savings. If you are using super, while providers may have their own rules, generally, you must have reached preservation age (between 55 and 60) and meet a condition of release, such as permanently retiring.

Using super to buy your annuity means your annuity payments are tax-free from age 60.

How much will I get paid and how often?

You can choose how often to get paid. The amount you're paid will depend on lots of things – from the sum you've put into your annuity to your age at the start of the term and your (or, if you choose, your spouse's) life expectancy.

For some types of annuities your payments will vary over time e.g. inflation linked annuity payments will rise and fall as the cost-of-living changes.

Can I withdraw a lump sum from my annuity?

Depending on the type of annuity you choose you may be able to access a lump sum for a defined period.

Look at ways to align your income options and choices with your overall retirement strategy – annuities can be one of several income streams that provide a balance between income security and maximising your potential income from other investments.

What happens to my money when I die?

Depending on the annuity, there can be a guaranteed death benefit paid to your nominated beneficiaries or your estate, or you can nominate someone to receive the remaining income payments.

Next steps

Plan your retirement strategy with confidence

Once you have settled on your retirement goals, the next step is to look at ways to match your income options to your planned lifestyle.

Annuities can be one of several income streams in your investment portfolio and work to give you a certain level of income security, allowing you to make the most of the potential in other investments and maintain your lifestyle while keeping stress levels down.

Annuity products differ slightly, so doing some of your own research can help you work out which will suit you best.

There's a lot to think about when you're planning for retirement, and the rules and regulations change often, so it's important to make your income choices with help from professionals who understand the Australian retirement landscape.

Some questions you may like to ask your financial adviser include:

- How much should I put into an annuity?
- When is the right time to invest?
- What kind of annuity should I consider?
- What happens if I need access to my money?
- What happens when I die?

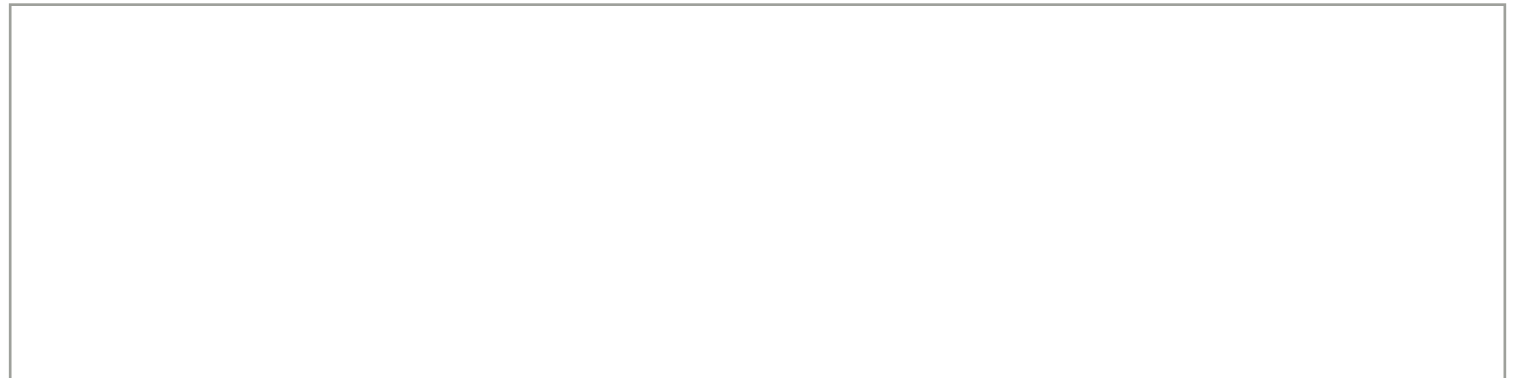
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Seek help from an expert

Everyone's plans for retirement are unique. That's why it's worth getting the right financial advice before you retire, so you can relax and enjoy your golden years knowing your future is taken care of.

Contact your financial adviser to determine what mix of retirement income is right for you.

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