

Maintaining your lifestyle

Retirement income in plain English

What is retirement income?

During your working life you receive regular income in the form of a salary or business income. In retirement, this regular income stops, so you need to draw on your savings to meet your lifestyle costs. You set up your savings so you still receive regular payments, just like a salary. This is called a 'retirement income stream'.

The type of income stream you can start at retirement depends on whether your savings are inside or outside of super.



Account-based pension

One way to receive your superannuation savings in regular periodic amounts is by using an 'account-based pension'. An account-based pension starts when you transfer your superannuation savings into a new account, called a pension account, and start to draw down on the money in a series of regular payments.

You can elect how much income you want to receive (above the specified minimum) and can continue to receive regular income until all of your super savings are exhausted, or you pass away. If you die, the balance of your savings is paid to your nominated beneficiary or to your estate.

How are your income and savings taxed?

If you are a member of a taxed super fund and age 60 or over, all the income from your pension account is tax free. If you are under the age of 60, a portion of your income may be tax free. Any amount that is taxable typically attracts a 15 per cent tax offset. Investment earnings and capital growth on your retirement pension account are not taxed.

Will you have enough?

Each year, Australians are living longer due to improvements in medicine and changes to lifestyle. There is a one-in-two chance that one member of a couple age 60 today will live to age 90. So even if you plan your retirement income strategy using today's average life expectancy, there is a good chance you'll live beyond this age.

Guaranteed income, for life

A range of products has been developed to provide you with a secure income during your retirement, every year for the rest of your life. Some of these income streams, if you choose to, will continue to pay this income to your spouse even after you die. We can help you determine whether this type of product is right for your needs.

Annuities

An annuity is the exchange of a portion of your savings for a series of regular fixed payments. Annuities can be purchased with superannuation savings, or money outside of super.

There are three main types of annuities:

- **Fixed term** annuity pays you regular income for a set number of years.
- **Life expectancy** annuity pays you regular income fixed for a term that is based on your life expectancy.
- **Lifetime** annuity pays you regular income for the remainder of your life.

You can purchase these types of income streams individually or jointly. If you choose to start the annuity jointly with another person, you can only use money outside of super to do so. Your income remains the same each year, unless you include an option called 'indexation'. Indexation allows you to increase your annual payments based on a set percentage, such as 5 per cent per year or the Consumer Price Index (CPI).

How is your annuity taxed?

Your income is taxed based on whether you start the annuity with super money or non-super money. For super money, if you are age 60 or over, all of the income is tax free. If you are under the age of 60, a portion of your income may be tax free. Any amount that is taxable typically attracts a 15 per cent tax offset.

Should you use superannuation savings?

If you are going to start an income stream with money that is not invested in superannuation, there is no age restriction on when you can do this. However, starting an income stream with 'non-super money' may limit your income stream options to certain types of annuities and depending on your circumstances, you may not benefit from the tax savings offered by superannuation. Your non-super savings may be structured to provide you with regular income, such as using direct property to receive rental income or shares to receive dividends, but you will not be taking advantage of superannuation tax concessions.

The purpose of superannuation is to save for your retirement. The government provides a number of tax benefits and concessions to encourage you to build your super savings, including:

- Certain types of contributions to super may attract a tax deduction, a tax offset or other concessions e.g. a Government co-contribution.
- Investment earnings are taxed at a maximum of 15 per cent (rather than your marginal tax rate), and capital gains at a maximum of 15 per cent.
- Your super benefits can be paid as a tax-free pension or lump sum when you reach the age of 60 and satisfy the criteria to access your funds.

To ensure that superannuation is used for its intended purpose, there are strict rules that determine when you can access your savings and when you can start a retirement income stream with your super.

When using superannuation to build your retirement savings, it is important to be aware of the limits and rules that apply when making contributions.

Also, there is a \$1.6 million limit on the amount of super savings that can be used to commence a tax exempt super income stream.

When can you access your super?

Generally, you can only access your super when you meet a condition of release, such as:

- you permanently retire from the workforce and reach a minimum age set by law, called your 'preservation age'.
- you cease an employment arrangement on or after age 60, or
- you reach age 65.

Depending on your circumstances, other conditions of release may apply.

Once you have satisfied a condition of release, you often have a number of options:

- withdrawing your superannuation in full or in part
- leaving your superannuation as it is, or
- starting an income stream.

Each of these options will have different consequences for your situation, such as the amount of tax you will pay and how long your money will last.



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