Income in Retirement

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. Your salary ends, but there is nothing to stop you setting up your savings so you still receive regular payments, just like a salary. We refer to this as a 'retirement income stream'.

The location of your savings, inside superannuation (super) or outside super, influences the type of income stream you can start at retirement.

Account-based pension (or allocated pension)

This type of income stream can only be started with money invested in superannuation.

Annuities

These income streams can be started with superannuation savings or money you have outside of super, such as in term deposits or your bank account. There are three main types of annuities:

- Fixed term annuity;
- Life expectancy annuity; and
- Lifetime annuity.

Should I use superannuation savings?

If you are going to start an income stream with money that is not invested in superannuation, there is no restriction on when you can do this – you can do this at any age. The disadvantages of starting an income stream with 'non-super money' are that if you want to purchase an income stream, your options are limited to certain types of annuities and you will not benefit from the tax savings offered by superannuation. Of course you can structure your non-super savings in a way 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 the superannuation tax concessions that are available.

The purpose of superannuation is to save for your retirement. To encourage you to build your super savings, the Government provides a number of tax benefits and concessions that make it more attractive to save using superannuation.

The tax benefits of superannuation include:

- Contributions made to super may attract a tax deduction or tax offset.
- 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 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. These rules also dictate when you can start a retirement income stream with your super.

When can I access my super?

Generally, you can only get access to your super when you permanently retire from the workforce and also reach a minimum age set by law. This age is called your 'preservation age'. There are other circumstances in which you may be able to access your superannuation. As the purpose of this fact sheet is to discuss income in retirement, we have not discussed these situations here. If you want further information on early access to your super, we suggest you read the 'Superannuation' fact sheet.

The table below sets out the minimum age for accessing your superannuation:

Your date of birth	Age to access
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
From 1 June 1964	60

Once you have reached your preservation age and retired, you have a number of options. You can:

- Withdraw your superannuation in full or in part;
- Leave your superannuation as is; or
- Start 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. This fact sheet focuses on using your superannuation to start an income stream once you have retired.

Account-based pensions

Payment of your superannuation savings in regular periodic amounts is called an 'account-based pension' or an 'allocated 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.

Account based pensions	
How much income do I receive?	• You elect the amount of income you want to receive. • The government sets a minimum amount you must withdraw each financial year, based on your age and the value of your savings. This is set out in a table below. • There is no maximum amount you can withdraw, except if you commence a non-commutable income stream.
How long will the income continue?	• You will 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.
Does my level of income change?	• You can change your income level each year to take into account changes in your cost of living, your age and the value of your remaining savings.
How is my income taxed?	Over age 60: • All income is tax free. Under age 60: • A portion of your income may be tax free. • Any amount that is taxed receives a 15 per cent tax offset.
How are my savings taxed?	• Investment earnings and capital growth on your savings are not taxed once you start your pension.

Can I make lump sum withdrawals?	• You can withdraw money at any time, except if you have a non-commutable income stream. • Withdrawing money will reduce the amount of income you receive in the future, or the length of time you can continue to receive a regular income.
How is my money invested?	• You can choose how your savings will be invested. The investment strategy you choose will carry a level of risk and an expected return.
How does Centrelink treat my income stream?	• The value of your savings is counted as an asset under the Centrelink assets test and deemed under the income test. **Please note:** If you commenced an account based pension before January 1st, 2015 the account balance will not be deemed under the income test. Centrelink will use a special calculation to work out how much of this income they will count under the income test.
What happens when I die?	This depends on some choices you will have made along the way: • When you start your pension, you can elect for it to revert to another person on your death. This is called a 'reversionary pension'. ✓ When you die, your remaining savings will continue to be paid as an income stream, as long as the person you have elected qualifies as a 'dependent'. • If you have not chosen a reversionary pension, you can nominate who you want your remaining savings paid to. This person, or people, is referred to as a 'beneficiary'. How your savings are paid out is based on your relationship with your nominated beneficiary. • If your savings are paid to a 'dependent': ✓ They can be received as an income stream or a lump sum ✓ They will be received tax free • If your savings are paid to a 'non-dependent': ✓ They can only be received as a lump sum ✓ They can be taxed up to a maximum of 31.5 per cent. • A 'dependent' is a: ✓ person you have a relationship with who lives with you, ✓ your children (aged under 18), or ✓ any person(s) financially dependent at your date of death. An adult child who does not receive financial support from you is not a dependent.

The following table sets out the Government's minimum annual withdrawal for account-based pensions:

Age	Percentage of account balance that must be withdrawn for 2014/15
Under 65	4.00%
65 - 74	5.00%
75 - 79	6.00%
80 - 84	7.00%
85 - 89	9.00%
90 - 94	11.00%
95 or over	14.00%

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

You can purchase these types of income streams individually or jointly with another person. If you choose to start the annuity jointly with another person, you can only use money outside of super to do so.

Annuities	
How much income do I receive?	**Fixed term income stream** Your regular income is calculated by the income stream provider based on: ✓ The amount you invest, ✓ The length of time you select (called the 'term'), and ✓ Investment market conditions. **Life expectancy and lifetime income streams** Your regular income is calculated by the income stream provider based on: ✓ The amount you invest, ✓ Your life expectancy, and ✓ Investment market conditions.
How long will the income continue?	**Fixed term income stream** ✓ You will receive income for the term you select. ✓ Common terms are between 1 and 25 years. **Life expectancy income stream** ✓ You will receive an income for the number of years you are expected to live, according to standard life expectancy tables. **Lifetime income stream** ✓ Payable for your lifetime. ✓ You can also nominate a minimum guarantee period. This means that if you die within that period, your estate will receive a lump sum back.
Does my level of income change?	• 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, e.g. 5% per year or CPI.
How is my income taxed?	Your income is taxed based on whether you buy the pension with super money, or non-super money. **Super money** Over age 60: • All income is tax free. Under age 60: • A portion of your income may be tax free. • Any amount that is taxed receives a 15 per cent tax offset.

How are my savings taxed?	• Once you purchase your income stream, you pay no tax on the lump sum you invest.
Can I make lump sum withdrawals?	• Generally, no. You may be permitted to make a withdrawal under very limited circumstances, such as to meet a superannuation surcharge liability or to divide up your super savings in the event of divorce. • For fixed term pensions and life expectancy pensions, you can elect to receive a lump sum at the end of the selected term. This is called a 'residual capital value' (RCV).
How is my money invested?	• How your money is invested is irrelevant because you have bought a guarantee to receive a fixed amount of income each period.
How does Centrelink treat my income stream?	• Your pension account balance is treated as an asset for Centrelink purposes. • A portion of your income is assessed under the Centrelink income test.
What happens when I die?	This depends on the type of pension you have, and certain choices you will have made along the way: **Fixed term income stream** • If you die before the end of the fixed term, any remaining income payments are paid to your beneficiary and taxed based on your relationship with them. **Life expectancy income stream** • Your remaining income payments are paid to your beneficiary and taxed depending on your relationship with them. **Lifetime income stream** • When you die, any remaining savings are retained by the pension provider, unless you select a minimum guarantee period. • If you die before the end of the minimum guarantee period, your beneficiary will receive an amount of money based on the guarantee period, the length of time since the pension was started and the initial amount you invest. • If you have a lifetime or life expectancy pension, you also have the option for it to revert to another person on your death. This is called a 'reversionary pension'. • This option is chosen when you first purchase the pension, and it may affect the amount of your fixed payments. • When you die the income will be paid to the person you nominate as your reversionary.

SMSF Strategic Advisors
2/192 Mulgrave Road,
Cairns Qld 4870
Phone: (07) 4225 5428
Fax: (07) 4051 1182
Email: info@smsfsa.com.au
Web: www.smsfsa.com.au