

Challenger Guide to annuities



Secure your
future with a
safe, reliable
income stream

challenger

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About Challenger

Challenger Limited is a publicly listed investment management firm. Established in 1985 and listed on the Australian Securities Exchange in 1987, Challenger Limited now manages in excess of \$54 billion¹ in assets, and is part of the S&P/ASX 100 Index.

The Challenger Group is focused on providing Australians with financial security in retirement. It does this by providing investment opportunities for those in the savings (accumulation) phase, and delivering safe and reliable income streams for those in the spending (retirement) phase.

Awards

Challenger Life is part of the Challenger group and has been awarded the AFA/Plan for Life 'Annuity Provider of the Year' six years in a row. These awards are issued by AFA (Association of Financial Advisers) and Plan for Life Actuaries and Researchers, and recognise life insurance company excellence in providing products and services to financial advisers and their clients. For further information about these awards, visit www.afa.asn.au



1 As at 30 September 2014.

Introduction

Retirement is a life-changing event. As you adjust to this new lifestyle, you'll also need to think differently about your finances.

Retirement is different

When you retire, there are different financial factors to consider because you are no longer receiving income from employment. Adverse market movements can have a greater impact on your savings in retirement because you're not replenishing your savings with a regular pay cheque. Additionally, when you're employed your income generally increases to keep pace with inflation. However, in retirement, inflation can erode the purchasing power of your savings.

At the same time, thanks to medical advancements and healthier lifestyles, you could enjoy a retirement period upwards of 30 years. This is a long time to make your savings last. Therefore, the decisions you make about investing your retirement funds are critical for making sure those funds last as long as you do.

Fortunately, there is a way to guarantee a level of secure, regular income throughout your retirement.

An annuity pays you guaranteed secure income that can keep pace with inflation, if you choose. The income is generally tax free if you're over 60 and investing your superannuation money. Some annuities may also help you access or increase your seniors benefits like the Age Pension and the Commonwealth Seniors Health Card.

Here we will explain annuities in more detail to help you understand how this type of investment might benefit you.

About annuities

You can't control the markets. But you can control your income.

What is an annuity?

An annuity is a secure investment that provides you with a series of regular payments, either for a chosen term or for your lifetime, in return for a lump-sum investment. It can be used with other retirement investments, like account-based pensions, to set you up with a dependable income that can last throughout your retirement.

Term annuities

Term annuities have fixed start and end dates that are typically chosen by you.

The minimum term is one year and maximum term is 50 years. Annuity payments are for the duration of the term and stop at the end of the term.

Lifetime annuities

Lifetime annuities provide regular payments for the rest of your life. If you choose, the payments may continue for the lifetime of a second person after you pass away. Lifetime annuities can help alleviate the worry that you will outlive your retirement savings.

How does an annuity work?

An annuity works like a paycheque in retirement. You invest some of your savings with a financial institution such as Challenger and Challenger then keeps your money safe while paying you guaranteed regular payments for either a fixed period or for the rest of your life depending on the type of annuity you choose. This income is generally tax free if you are over 60 years of age and are investing your superannuation money. The payments can be made monthly, quarterly, half yearly or yearly.

Annuity features

Annuity features can include:

- regular payments in return for a lump-sum investment
- competitive earning rates fixed at the start of the investment
- fixed terms from one to 50 years, or for your lifetime
- regular payments made monthly, quarterly, half-yearly or yearly
- guaranteed regular payments regardless of share market movements
- no management fees (note, you may agree to pay fees for services provided to you by your financial adviser)
- generally tax-free payments for those aged 60 or over if bought with superannuation money
- can be tailored to provide benefits for your spouse or another dependant.

Annuities are designed to be held to term. If you would like to withdraw your annuity, in most cases you will receive a return of your investment but you may receive back less than you invested originally and less than you would have received had you held the annuity for its agreed term.

Risks

As with all investments, annuities carry some risks. These risks and how they are managed, are described in the product disclosure statement (PDS) for the relevant annuity. Therefore, before deciding to invest in an annuity, you should read the PDS and consider the suitability of the annuity to your circumstances.

Speak to a financial adviser

We recommend you seek financial advice from a qualified financial adviser to determine whether an annuity is right for your circumstances. A financial adviser can help you understand how an annuity could fit within your investment portfolio and how to select the appropriate investment amount, term and how your capital is returned.

If you do not have a financial adviser, call Challenger on 13 35 66 to obtain more information about the features of Challenger's annuities.

Challenger annuities

Annuities have been around for a long time, but Challenger annuities have contemporary features.

Guide to annuities

Challenger annuities

Features

Security

Your regular income payments are guaranteed, regardless of share market movements or interest rate fluctuations.

Lifetime income

In the case of a lifetime annuity you can enjoy regular, dependable payments for the rest of your life.

Seniors' benefits

Some annuities may help you access or increase your seniors' benefits like the Age Pension and the Commonwealth Seniors Health Card.

Flexible terms and payments

With annuities you can choose your investment term. It can be as short as one year, as long as 50 years or even for your lifetime. You can also select how often you get paid – monthly, quarterly, half-yearly or annually.

No product fees

There are no fees or charges payable to Challenger, but please note that if you have a financial adviser, you may have agreed to pay them a fee.

Tax effectiveness

When an annuity is bought with money rolled over within the superannuation system by a person aged 60 or over (as long as it is classified as 'unrestricted non-preserved' superannuation money) and the chosen income payments meet the Government's minimum payment rules, the regular payments are tax free.

Access to your money

If you would like to withdraw from your annuity, in most cases you will receive a return of your investment but you may receive back less than you invested originally and less than you would have received had you held the annuity for its agreed term. Refer to the relevant product disclosure statement for more information.

Inflation protection

With some annuities, you can elect to index your payments so they keep pace with inflation or at a fixed indexation rate.

Products

Challenger Guaranteed Annuity (Term) – 'Term Annuity'

Investment term: 1 to 50 years

Minimum investment: \$10,000

Our Term Annuity provides a regular cash flow for your chosen investment term, regardless of how investment markets perform. Whether used on its own or with other investments like account-based pensions, it can help give you peace of mind during retirement.

The regular payments are made at your chosen intervals and are a fixed rate of return on your capital investment, plus any capital repayment you choose to have paid to you throughout the investment term.

Challenger Guaranteed Annuity (Liquid Lifetime) – 'Lifetime Annuity'

Investment term: Your lifetime or the lifetime of you and another person

Minimum investment: \$10,000

Our Lifetime Annuity is a secure investment that provides income for life. It can be used with other retirement investments, like account-based pensions, to set you up with a level of dependable income that can last throughout your retirement.

The Lifetime Annuity provides regular payments for your lifetime, in exchange for an initial capital investment. You also have the option of providing regular payments for the lifetime of a second person.

This could be by:

- Nominating a person who will receive your payments if you die. This is known as your 'reversionary' as the annuity reverts to them for the remainder of their life. If you buy an annuity with super money, your reversionary beneficiary can only be your spouse.
- Joint ownership, which means that you and a second person receive payments throughout both your lifetimes (and when the first joint owner dies the surviving joint owner receives all the payments). Joint ownership is only available if your annuity is purchased with non-super money.

The amount of your regular payments is established at the time you buy the annuity and will depend on the options you choose and prevailing interest rates.

Risks

All investments carry some risk. The appropriate level of risk for you will depend on factors such as your age, financial goals, investment timeframe, where other parts of your wealth are invested and your risk tolerance. We recommend you speak to a financial adviser to determine whether an annuity is appropriate for you.

FAQs

Here we answer common questions about annuities including how your money is invested and whether you can access your capital.

Guide to annuities

FAQs

Common questions

Who is Challenger Life?

Challenger Life is part of the Challenger group. Challenger Life is Australia's largest provider of annuities, managing approximately \$11.5 billion² in assets. An Australian life insurance company, Challenger Life is regulated by the Australian Prudential Regulation Authority (APRA).

How is the money I invest in an annuity used?

When you buy a Challenger annuity, your money is pooled with money from other investors along with additional money from the Challenger group. Challenger Life is required by law to keep this money separate from other funds in the Challenger group, in what is known as a statutory fund.

The statutory fund primarily invests in fixed income (including cash), with some investments in commercial property, infrastructure and a very small amount in listed shares. The statutory fund is invested with the aim of achieving stable returns to generate reliable cash flows that are sufficient to meet payments to all investors.

Challenger Life is required to comply with APRA's capital adequacy standards to help ensure that obligations can be met. Challenger Life holds more assets in the statutory fund than the APRA minimum.

Where do my regular payments come from?

Your regular payments are made from the statutory fund. The money in the statutory fund is managed by Challenger's in-house and external investment managers.

² As at 30 September 2014.

How safe are annuities?

Challenger Life is regulated under the Life Insurance Act 1995, which governs the provision of annuities in Australia. Under this Act, Challenger Life is subject to prudential regulation by APRA, which actively supervises all Australian life companies to help ensure they are able to meet their obligations to investors. If the money in the statutory fund falls below the level required to make payments to investors, Challenger Life is required to top it up.

How can I buy an annuity?

We suggest you talk to your financial adviser about whether annuities could play a role in your investment or retirement portfolio. Product disclosure statements, including application forms, are also available from www.challenger.com.au or by calling 13 35 66.

Where can I find rates?

Current payment rates on our standard annuity options are available on the Challenger website at www.challenger.com.au/productrates

For other options or to get a quote, contact your financial adviser or call us on 13 35 66.

What costs are involved?

We do not deduct a management fee from the investment return, from your regular payments, or from your capital. Our costs are taken into account when setting the amount of your regular payments. You can, however, agree to the payment of adviser service fees with your financial adviser and authorise us to pay those fees to the Australian Financial Services Licensee who supervises your financial adviser (or your financial adviser directly if they are the licensee). Where you do so, the amount of your regular payments is reduced accordingly.

Can I withdraw my money before the end of the term?

You can. If you withdraw from your annuity before the end of the term, you may receive back an amount less than the amount you originally invested, even after taking into account any payments you've already received.

What happens to my annuity if I die before the term is up?

For a fixed term annuity, your estate or beneficiaries generally have the option to either continue to receive payments until the end of the term or withdraw the annuity and have it paid as a lump sum. The withdrawal value may be less than the original amount invested, even after taking into account any payments already received.

With Challenger's Lifetime Annuity, a withdrawal value is only available for the first 15 years of the annuity term.

Read the relevant PDS or speak to a financial adviser for more information.

How are annuities assessed for tax?

Your regular payments are tax free if:

- you are 60 or over
- you bought the annuity using your superannuation (as long as it is classified as 'unrestricted non-preserved' superannuation money), and
- your chosen payments meet the Government's minimum payment rules.

Minimum payment rules prescribe how much you must draw from your annuity when bought with superannuation money and are based on your age and a percentage of your purchase price as set out in the table below.

Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 and over	14%

We only offer annuities that meet these minimum payment rules.

If you bought your annuity with non-superannuation money then the income component of the regular payments is considered to be assessable income and may be subject to tax.

Are annuities counted towards social security benefits?

Assets Test

The purchase price of an annuity is assessed under the Assets Test. If you choose to receive all of the capital at the end of the selected term, the assessed asset value does not change. If you choose to have some of the capital returned as part of the regular payments, the asset value is recalculated every six or 12 months and reduced by the amount of capital returned up to that time.

Income Test

The amount of income assessed depends on factors including the term of the annuity, your life expectancy and how much of your capital is repaid to you during the investment term.

A financial adviser can provide you with more information on how your investment choices can affect your Centrelink entitlements.

Where can I find more information?

You can find more information about Challenger's annuities in the relevant PDS, by calling your financial adviser or Challenger's Investor Services team on 13 35 66, or by visiting www.challenger.com.au.

The information in this booklet is current as at 20 October 2014 and is provided by Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger), the issuer of Challenger annuities. It is provided for information purposes only and is not intended to be financial product advice. It does not take into account any person's objectives, financial situation and needs. Before deciding whether to acquire or continue to hold an annuity, it is important to consider the current product disclosure statement (PDS) for the applicable annuity (available from www.challenger.com.au) and the appropriateness of the annuity (including the risks) to your circumstances. Challenger's obligation to make guaranteed payments under any Annuity is a contractual obligation and is subject to the terms and conditions of the Annuity and the Life Insurance Act (Act). The payment obligation of Challenger is limited to the available assets of Challenger's Statutory Fund No 2, except if otherwise provided by the Act. Additionally, Challenger is not authorised to give taxation or social security advice. It is strongly recommended that investors obtain professional advice (including taxation and social security advice, if applicable) before making a retirement investment decision. Certain statements in this booklet relate to future matters. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievement to be materially different from those expressed or implied in this booklet. Neither the Challenger Group nor any company within the Challenger Group guarantees the performance of Challenger Life's obligations or assumes any obligations in respect of annuities issued by Challenger Life. In preparing this booklet, Challenger Life has relied on publicly available information and sources believed to be reliable; however, this information has not been independently verified. While due care and attention has been exercised in preparing this booklet, to the maximum extent permitted by law, Challenger Life gives no representation or warranty (express or implied) as to its completeness or reliability. Where a person acquires or holds annuities, Challenger Life and its related parties will receive the fees and/or other benefits disclosed in the relevant PDS. Neither Challenger Life, its related entities nor their employees receive any specific remuneration for any advice provided. Financial advisers, however, may receive fees or commission if they provide advice to you or arrange for you to invest in a Challenger annuity. Some or all Challenger Group companies and their directors may benefit from fees, commissions and other benefits received by another Group company.

Speak to your financial adviser, visit www.challenger.com.au
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