

ANNUITIES - PROVIDING YOU

WITH PEACE OF MIND IN RETIREMENT



Colonial First State

Everyone's journey through retirement is unique. As you prepare for this new lifestyle, you'll need to think a little differently about your finances.

Whatever your retirement aspirations may be, there are certain financial factors you may need to consider when you retire. As you may no longer receive income from employment, you will need to think about how to ensure your savings can support your lifestyle for the duration of your retirement. You may also need to think about the possible impact of adverse market movements on your retirement income, and the impact that inflation can have on the future purchasing power of your savings.

With Australians now living longer than ever before,¹ you could enjoy a retirement period upwards of 30 years. With this in mind, the investment decisions you make today about your retirement funds are crucial for ensuring those funds will last for as long as you need them to.

That's where an annuity may help.

What is an annuity?

An annuity can provide a guaranteed level of regular income throughout your retirement, providing you with peace of mind.

You get the comfort of knowing exactly how much income you'll receive and how long it will last and your annuity income won't fluctuate with movements in financial markets. The annuity provider bears all the market risk and provides you with guaranteed payments for the term of the investment.

Annuities are often used as part of a retirement portfolio because they are intended to provide a reliable source of income over a long period of time.

An annuity might be right for you if you want to:

- receive a guaranteed regular income for a term or your lifetime, regardless of market changes
- select from a range of flexible income options,² including:
 - a fixed term or lifetime options, and fixed percentage or inflation-linked income payments
 - b choice of income payment frequency
 - c the ability to withdraw and guaranteed benefits paid if you die
 - d the ability to nominate and pass your income stream onto a selected beneficiary if you die during the term
 - e the ability for a withdrawal to be made by a selected beneficiary if you die during the term.

¹ Australian Institute of Health and Welfare, 2014

² Options available will vary depending on the product and issuer. Refer to the relevant Product Disclosure Statement and policy wording

Types of annuities

Your financial adviser can help you select an annuity that is best suited to your particular retirement needs. The two main types of annuities – fixed term and lifetime – are compared in the table below.

	Fixed term annuity	Lifetime annuity
Term	Usually a minimum of one year and some providers offer terms of up to 50 years	It will pay you an income for the rest of your life or the life of your reversionary
Minimum investment	Usually \$10,000	Usually \$10,000
Payment frequency	Monthly, quarterly, half-yearly or yearly	Monthly, quarterly, half-yearly or yearly
Indexation	CPI or a fixed amount up to 8%, depending on the provider	CPI or a fixed amount up to 8%, depending on the provider
Return of capital	0%–100% of your capital can be repaid at the end of your investment term	Capital is returned in the income payments. Some lifetime annuities allow you to make a withdrawal during a withdrawal period.

How does an annuity differ from an account-based pension?

An account-based pension (also known as an allocated pension) is a regular income stream, purchased with money you have accumulated in super. An account-based pension can be established when a person reaches retirement age and wants to start receiving an income stream. The funds are invested in the investment options available from the provider and withdrawals are made from the account to pay a regular income. The balance will go up or down according to the performance of the underlying investments in the account and the amount being withdrawn. Unlike an annuity, the return of the investment is generally not guaranteed.

With an annuity, in return for your initial lump sum investment, you receive a series of guaranteed payments for a period of time. These payments include a competitive earning rate which is fixed and agreed upfront. That earning rate is unaffected by market movements.

Both account-based pensions and annuities have minimum payment requirements each year, but there is no restriction on additional withdrawals. Annuities are designed to be held until the end of the investment term so if you withdraw early you might receive less back than you originally invested.

Once you reach age 60, both annuities and account-based pensions are generally tax-free on income or investment earnings.

Annuities and account-based pensions

An annuity pays a guaranteed amount of income for the term of the investment. The income provided does not fluctuate with market performance.

Income from an account based pension is withdrawn from the principal balance. The balance can rise or fall according to market performance. It will also be impacted by the amount and timing of withdrawals made from the account.

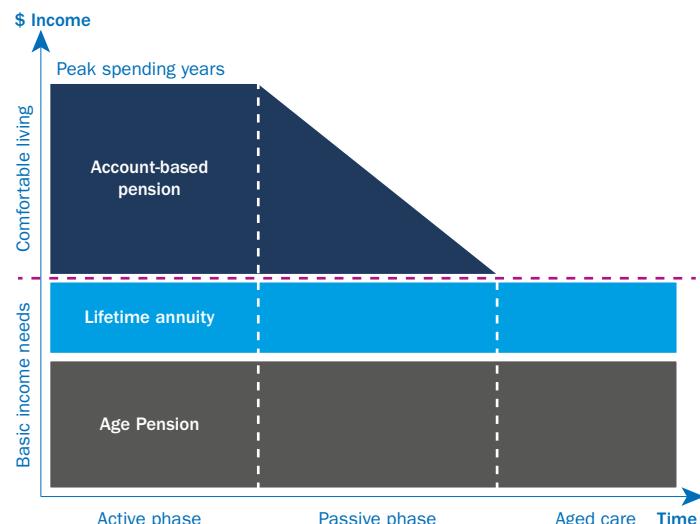
Annuities and your retirement

Annuities are often used in conjunction with other sources of retirement income (such as an account-based pension and the government's Age Pension) to provide a balance between a dependable source of income and the potential benefits from market-linked investments.

Example – annuities within a retirement portfolio

As illustrated in the diagram below, a component of retirement funds can be structured to provide income to pay for essentials such as food, clothing, utilities and health expenses without being exposed to market risk. In this example, a lifetime annuity is used to supplement Age Pension entitlements. The remaining savings are invested into an account-based pension to pay for non-essential items or 'desirables', such as holidays, entertainment and home improvements. This component of the retirement portfolio can also be used to cover unforeseen costs or emergencies.

INCOME STREAMS IN RETIREMENT



This diagram is illustrative only and not to scale. It is not a prediction or guarantee of any particular outcome and does not constitute personal financial advice.



Want more information?

If you want to know more about annuities, we recommend you speak to your financial adviser. They can help you work out how to structure your retirement funds in a way that is appropriate for your circumstances, including maximising any social security payments you may be entitled to.

If you would like to know what type of investments Colonial First State offers, please call us on 13 13 36 or visit colonialfirststate.com.au

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