Retirement Income

Overview of retirement income streams

Aon Financial Education Series

When you retire, the need for a regular income doesn't stop. A retirement income stream is an investment vehicle which allows you to receive regular income payments after you have ceased working, to help fund your living expenses.

There are a number of different types of retirement income streams which can be purchased using either your super or personal savings (non-super money). The most common type of income stream is an account based pension. What you need to do is match the most appropriate income stream(s) to your own specific circumstances and this is where your financial adviser can assist.

Account Based Pension

Account based pensions are the most flexible type of income stream. They can only be purchased using super money, however if you have money outside of super you may be able to contribute it into super and then commence an account based pension. For more information, please refer to the 'Super Contributions' fact sheet under the Superannuation Financial Education Series.

You will receive an income from your pension each year until the account balance is nil. The income you will receive from your account based pension will vary from year to year depending upon the account balance as at 1 July. As such, if you draw a large income from the pension it will run out more quickly than if you were to draw the minimum annual payment.

The income from an account based pension is tax free if you are aged 60 or over. If you are under 60, some of the income may be tax free and the remainder will be taxable; however you should receive a 15% tax rebate on this portion.

Account based pensions enable maximum flexibility as you have access to your capital. This means you can withdraw a lump sum in addition to the income stream. You can think of an account based pension as your personal retirement income account.

An account based pension will count towards your General Transfer Balance Cap.

Please refer to the 'Account Based Pension' fact sheet under the Retirement Income Financial Education Series for more information.

Non-commutable Account Based Pension (Transition to Retirement)

You are able to start an income stream from your super while you are still working. This type of income stream is known as a transition to retirement pension.

A transition to retirement pension is an income stream you can commence if you are over your preservation age. You are not able to make a lump sum withdrawal from your pension. When you reach age 65 or stop working, the transition to retirement pension can then become a normal income stream (also known as an account based pension) and you are then able to make lump sum withdrawals.

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You will receive an income from your pension each year until the account balance is nil, however your pension income will vary from year to year depending upon the account balance as at 1 July. As such, if you draw a large income from the pension it will run out more quickly than if you were to draw the minimum annual payment. There is also a maximum annual limit on the amount of income you can receive from the pension, which is 10% of the account balance as at 1 July each year.

The income from a transition to retirement pension is tax free if you are aged 60 or over. If you are under 60 some of the income may be tax free and the remainder will be taxable, but you will receive a 15% tax rebate on the taxable portion.

Transition to retirement pensions can benefit you if you want to reduce your working hours as it enables your reduced income to be supplemented by an income stream drawn from super benefits. In addition, it can be combined with a salary sacrifice strategy to build your retirement savings in a tax-effective manner.

The earnings within the transition to retirement pension are taxed at 15% the same as your super.

A transition to retirement pension will not count towards your General Transfer Balance Cap, as the earnings are not tax free. When you reach age 65 or retire, the balance may then count towards your cap.

Please refer to the ‘Transition to Retirement Pension’ fact sheet under the Retirement Income Financial Education Series for more information.

Fixed Term Annuity

Annuities are income streams which are usually paid by a life insurance company. This means that you can use your personal savings (non-super money) to purchase an annuity as well as your super. Annuities provide a guaranteed regular income in exchange for an initial lump sum amount, paid to you monthly, quarterly, half-yearly, or yearly, whichever suits your needs best, for the term of the annuity.

As the name suggests, a fixed term annuity will pay you an income for a set period of time, usually between 1 and 30 years. Before you commence the annuity you will select the period over which you wish the annuity to be paid. The annuity is only paid for the fixed term, if you live longer than the fixed term the annuity will stop. When you purchase the annuity, you can elect to receive all or part of your original investment amount back at the end of the term (this is called the residual capital value), however this will reduce the amount you receive each year as income.

Your initial investment and income is 100% guaranteed and won’t be affected by interest rate changes or movements in share markets, which will provide you with peace of mind.

The income from an annuity purchased with super is tax free if you are aged 60 or over. If you are under 60, some of the income may be tax free and the remainder will be taxable, but you will receive a 15% tax rebate on the taxable portion.

If you purchase the annuity with personal savings (or non-super money) the income will be taxable at your marginal tax rate, however you may receive a “tax free amount”.

An annuity purchased with your super will count towards your transfer balance cap, while one purchased with non-super money will not count towards your cap.

Please refer to the ‘Guaranteed Annuities’ fact sheet under the Retirement Income Financial Education Series for more information.