



Retirement Income

Guaranteed annuities

Aon Hewitt Financial Education Series

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) as well as your super to purchase an annuity. Annuities provide you with 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.

Fixed Term 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 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 there is no further payment.

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.

Lifetime Annuity

A lifetime Annuity is designed to provide a regular cash flow for life, regardless of how long you live or how investment markets perform. Often this type of annuity will have a term period where you are able to cash in the annuity, beyond the term no capital value will be available.

Why invest in an annuity?

When you invest in an annuity the interest rate is locked in at the start, which means you will know with certainty the amount of income you will receive each year. The income payments will continue for the term of the annuity, which means that you don't need to worry about the balance running out before that time.

Is the income from my annuity guaranteed?

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

Can I make changes to my annuity income?

As the interest rate and term of the annuity is decided at the start of the annuity, you are unable to make changes to the amount of income you are receiving or the frequency of the payments during the term of the annuity.

You can elect for your payments to be the same each year, increase at a fixed rate or inflation proofed to maintain the purchasing power of your income in years to come. However, it is worth noting that these options come at a cost.

How is the income I receive from the annuity taxed?

The income from an annuity is divided into two components: a return of capital and interest income. The part of the income that is a return of your capital is tax free; however the interest arising from the capital is taxable.

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

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

What happens to my annuity upon my death?

In the event of your death within the fixed period, you can elect to have your spouse or partner receive the annuity payments or a lump sum will be paid to your beneficiary or estate.

Do I need to be retired to purchase an annuity?

You don't have to be retired to purchase an annuity, which means it can be used in a number of different ways. One example is to provide a regular income for a financially dependent adult child who is unable to look after their own affairs.

Withdrawal before the end of the term

You may be able to cash in your annuity before the end of the term, however you are likely to receive less than the amount you originally invested even after taking into account any payments which have already been made. Note that there may be tax and Centrelink implications.

Can I add additional funds to my annuity?

You are unable to add funds to the annuity after commencement. If you find that at some point in the future you have additional funds you wish to invest, you will need to commence a second annuity.

What is the impact on my General Transfer Balance Cap?

With the transfer balance cap introduced from 1 July 2017, you are able to invest up to your transfer balance cap of \$1.6 million each in tax free retirement income streams.

If you are starting an annuity with super money, then the balance will count towards your cap.

If you are using non-super money, then there is no impact on your cap,

Please refer to the fact sheet on 'Transfer Balance Cap' under the Retirement Income Financial Education Series for more information.

Aon Hewitt Financial Advice Limited | ABN 13 091 225 642 AFSL No 239183

This information may be regarded as general advice. That is, your personal objectives, needs or financial situations were not taken into account when preparing this information. Accordingly, you should consider the appropriateness of any general advice we have given you, having regard to your own objectives, financial situation and needs before acting on it. Where the information relates to a particular financial product, you should obtain and consider the relevant product disclosure statement before making any decision to purchase that financial product.

This document, including all tax and super calculations, has been prepared using legislation in place as at 1 July 2018.