Retirement Income Streams

What are Retirement Income Streams?

During working life we become used to earning a regular income. For most people the regular income comes in the form of a salary or wage which is paid at least monthly.

By the time retirement comes around we usually have our income and spending patterns well practised (although these may change a little in retirement). At retirement or at some stage before, we start to plan what to do with our retirement savings and superannuation.

One of the things you can do with some or all of your superannuation and/or other money is to invest into a retirement income stream.

Retirement income streams are simply investments that allow you to receive regular income and capital payments, providing you with a basis for managing ongoing income and spending patterns. As with most income streams, they are tax exempt thereby your gross amount equals your 'take home pay'.

There are many different types of retirement income streams, all of them having a similar theme of; investing to obtain a regular tax paid income stream.

Income Streams—What types are there?

There are two main types of retirement income streams – pensions and annuities.

- A pension is the name given to income streams which are payable from superannuation funds.
- An annuity is the name given to income streams which are generally payable from life insurance companies.

Income streams also fall into two other categories, being those that are account based and those that are not account based.

Account Based Income Streams

The account based variety is the most flexible type of income stream.

When you invest in an account based income stream, you have an investment account with the relevant fund.

Your investment account balance will increase as investment earnings are added to your account and decrease as you draw down regular income payments. For as long as the income stream lasts, you will have an account balance. The most common type of account based pension is referred to as an allocated pension. Market linked pension (also called term allocated pensions) are also popular.

Non Account Based Income Streams

These are income streams which do not have an account balance. They generally have a purchase price and you exchange a lump sum of money for an income stream over either a fixed period of years, or your lifetime. These payments are guaranteed to be payable by the organisation providing the product. They are also referred to as Fixed term pension or annuities or lifetime pensions or annuities.

Account Based Income Streams

The most popular types of account based income streams have been referred to as allocated pensions and annuities.

Account Based Market Linked Income Streams

A term allocated pension is essentially a mix of an allocated income stream and a life expectancy income stream. Simply put, a term allocated pension will allow you to draw an income for a period of time defined at commencement of the pension, but will be exposed to investment risk. The term of the pension may be equal to the life of the member, or to the average life expectancy of a person of the same gender for up to 5 years younger. A factor is then applied to the amount invested into the fund to determine the income you can draw.

A term allocated pension is non-commutable, meaning that when you start to draw money from the fund, it cannot be converted to a lump sum payment. From 20th September 2007 term allocated pensions will not qualify for concessional treatment under Centrelink's assets test. Should you pass away before the term allocated pension has ended, the remaining funds will be available for distribution to your nominated beneficiaries or to your estate.

Non Account Based Lifetime and Fixed Term Income Streams

A lifetime income stream is essentially the exchange of money for a series of income payments which will last the rest of your lifetime, whereas a life expectancy income stream will last until you have reached your life expectancy, which is decided at the time you purchase the fund. The frequency and amount of these payments must be also determined at the time the fund is purchased.

Lifetime and life expectancy income streams are quite inflexible. You must consider all possible future increases in your expenses, and be financially prepared for them. There is no underlying investment portfolio like an allocated income stream, so your income will not grow or fluctuate based on the performance of the markets. However, your payments will not keep pace with inflation, so it is essential that you index your payments either by the rate of inflation or a fixed interest rate. A life expectancy income stream will also allow you to draw on your capital (6 months after the fund is established), whereas a lifetime income stream will not.

It is possible that you may outlive your life expectancy income stream, which means you will have to rely on other investments to support your lifestyle choices. A lifetime income stream will continue to pay an income until you pass on. It is possible to have a proportion of these remaining payments made to a nominated beneficiary.

Which Retirement Income Stream is best for me?

There is no simple answer to this question, as goals and requirements for retirement greatly differ from person to person. For more information on retirement income streams, or to arrange an appointment to discuss your retirement income requirements, please contact us.

To find out more information, please contact us:

Phone: 07 4632 1966
Fax: 07 4638 5787
Address: 619 Ruthven Street, Toowoomba Qld 4350
Postal: PO Box 3178 Village Fair, Toowoomba Qld 4350
Website: www.mccon.com.au
Email: mail@mccon.com.au