



Financial decisions at retirement

How to make the most of your money
and avoid costly mistakes



ASIC's



MONEYSMART

Financial guidance you can trust



ASIC

Australian Securities & Investments Commission

About ASIC and MoneySmart

The Australian Securities and Investments Commission (ASIC) regulates financial advice and financial products.

ASIC's MoneySmart website helps consumers and investors make smart choices about money. It offers calculators and tips to give you fast answers to your money questions.

Visit moneysmart.gov.au or call ASIC on 1300 300 630.

About this booklet

This booklet explains the strategies and actions you can take to make the most out of your retirement income. Use this booklet, the useful contacts and resources we recommend, and the calculators and tips on ASIC's MoneySmart website, to take steps to improve your financial future.



What information do you need?

Answer the questions in this checklist to find out which sections of this booklet you need.

Do you want to know how much money you'll need for your retirement expenses and living costs ?	<input type="checkbox"/> See page 6
Do you want to find out about your Age Pension and other entitlements?	<input type="checkbox"/> See page 10
Do you want to know when you can withdraw your super ?	<input type="checkbox"/> See page 12
Are you thinking of taking your super as a cash lump sum or income stream ?	<input type="checkbox"/> See pages 14–17
Do you need help on your different retirement income stream choices and investment options ?	<input type="checkbox"/> See pages 20–27
Are you interested in moving to part-time work or boosting your super with a ' transition to retirement ' pension?	<input type="checkbox"/> See page 22
Would you like the certainty of a fixed income for the rest of your life?	<input type="checkbox"/> See page 24
Do you have a will and estate plan ?	<input type="checkbox"/> See page 28
Would you like some tips on riskier or more complex strategies and investments ?	<input type="checkbox"/> See page 30
Do you want to know where to get trustworthy retirement information and guidance ?	<input type="checkbox"/> See page 34
Do you want a glossary to explain any confusing terms?	<input type="checkbox"/> See page 36

Introduction

Retirement means different things to different people. For some, it's a definite point in time when work stops and a new phase begins. For others, retirement may be a gradual process as they leave employment for a time and return later, or vary their working hours as priorities shift and change. Often, retirement comes earlier than expected – for example, because of redundancy or poor health.

Whatever your path to retirement, one of the big challenges most of us face is how to pay for it. The financial aspects are often complex, and getting reliable and trustworthy information is vital.

Are you ready to retire?

If you're not sure whether your finances are in good shape and if you're ready to retire, help is at hand. See 'How much money will you need?' on page 6, and use these resources:

- ▶ **ASIC's MoneySmart:** ASIC's consumer website, moneysmart.gov.au, can help you work out how much money you will need for the life you want. Use the **budget planner** to take stock of your present and future spending. The **retirement planner** estimates the income you are likely to get from your super and the Age Pension. It also shows steps you can take to boost your future income.
- ▶ **Contact Department of Human Services (DHS):** A DHS Financial Information Service officer can help you make sense of your options (humanservices.gov.au).
- ▶ **See a licensed financial adviser:** An adviser can help you assess your current position, your short and long-term needs, financial strategies for achieving your goals and the tax and social security implications.



What this booklet covers

This guide is for you if you're some time away from retiring but would like to start thinking about your options, or at the point of retirement and unsure about what to do with your money. It provides information about:

- ▶ when you can access your super
- ▶ how you may use a 'transition to retirement' strategy to reduce working hours while maintaining enough income
- ▶ the benefits and drawbacks of withdrawing your super as a lump sum
- ▶ low-tax retirement income streams
- ▶ risky or more complex strategies and investments to think twice about
- ▶ how to leave an inheritance for your dependants.

What this booklet does not cover

If you have a 'defined benefit super fund', your retirement benefit is determined by a pre-existing formula. If you're not sure of your entitlements, contact your super fund.

If you have a self-managed super fund, see page 19.

If you are not retiring yet but are looking for ways to increase your retirement savings, go to **moneySMART.gov.au** and use our **retirement planner**.

This booklet does not cover property investments. For information, go to **moneySMART.gov.au** and search for 'property'.

Smart tip



The glossary on page 36 provides a clear explanation of some of the words and terms used in this booklet.

How much money will you need?

Everyone's needs and expectations in retirement will differ. However, research by the Association of Superannuation Funds of Australia (ASFA) finds that, for a modest lifestyle, a single retiree needs about \$450 per week (per year \$23,469). A couple needs about \$648 per week, or about \$33,766 per year, to live modestly.

To live comfortably, a single retiree needs about \$817 per week (\$42,604 per year), while a couple would need \$1119 per week (or \$58,364 per year). This includes a car, clothes, private health insurance and leisure activities such as entertainment and holidays (see chart on next page).

These figures were correct at the end of December 2014, but inflation means retirement costs will rise over time. Go to superannuation.asn.au for more details.



Are your savings enough?

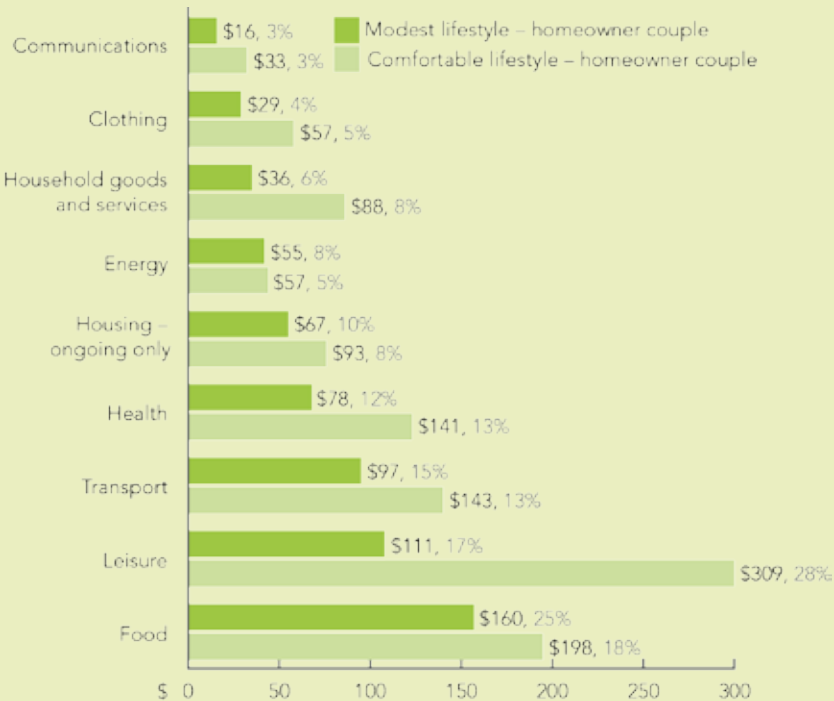
So how much money do you need to retire with to meet such living costs? Use the **retirement planner** at moneysmart.gov.au to understand the level of retirement income you can expect from your current savings.

If you have a partner, talk to them about your expectations, future plans and the lifestyle you want. You may need to seek professional advice.

And don't forget, most retirees receive some form of Age Pension payment (see 'Entitlements from Centrelink' on page 10).



Weekly expenses for a modest or comfortable lifestyle (couple who own their own home)



Source: ASFA Retirement Standard, December quarter 2014.
Figures are rounded.

Long-term costs of retiring

Good retirement planning is not just about your immediate living expenses, but the potential long-term costs too.

We are living longer and healthier lives, so it pays to think about the costs you may experience in later years.

The average life expectancy for a 65-year-old man is about 19 more years, and 22 years for a woman*. But these are just averages that do not take account of individual circumstances – you may live for much longer.

*Source: Australian Bureau of Statistics, Life Tables, States, Territories and Australia (November 2014)



Accommodation costs in later life

One of the largest potential costs in later life is aged care. If you become a resident of an aged care home, you may be asked to pay:

- ▶ **a basic daily care fee** – this fee contributes to living expenses like meals, laundry, heating, air-conditioning, and nursing and personal care
- ▶ **an 'income-tested' fee that depends on your income and level of care** – you will not be asked to pay more than you can afford or more than the cost of the care you receive
- ▶ **an accommodation bond or charge** – at present, you can only be asked to pay a bond or charge if your assets exceed an amount set by the government
- ▶ **extra fees** – if you accept a room with an extra service status, you may be asked to pay an extra service amount.

You may be eligible for government assistance with the cost of your accommodation. To test your eligibility for assistance, you need to undertake an assets assessment.

More information

The My Aged Care website helps you navigate the aged care system.

Go to myagedcare.gov.au.

They also have a national contact centre (1800 200 422) which operates 8 am - 8 pm weekdays and 10 am - 2 pm on Saturdays.



Entitlements from Centrelink

Many people in retirement live on a mix of their own savings and the government Age Pension. The Age Pension is paid to people who meet age and residency requirements. The rate you receive depends on the level of your income and assets.

How much will you get?

In March 2015, the maximum fortnightly pension rate was \$782.20 for a single person and \$1179.20 for a couple combined. You may also be eligible for pension and/or clean energy supplements. For singles the maximum combined supplement rate is \$78.00 a fortnight. For couples it is \$117.60 a fortnight. The supplement rates are updated in March and September each year.

You can have a certain amount of income and assets and still receive the maximum rate Age Pension. If your income or assets exceed the thresholds, your Age Pension reduces on a sliding scale.

Two tests – the income and assets tests – are used to assess your eligibility. The test resulting in the lower rate of Age Pension is used.

Income test

The income test is used to work out your rate of Age Pension based on how much income you receive. Most forms of income are considered, including rent, super and employment earnings. A Government Work Bonus means that your employment income is treated at a concessionary rate under the income test.



Assets test

The assets test is used to work out your rate of Age Pension based on the value of your assets, including property. Your family home is not included, but deciding to sell your home or other assets may affect your Age Pension rate.

Under the assets test, there are hardship rules for situations where you cannot sell a particular asset.

For details of your Age Pension eligibility, and the income and assets tests, go to humanservices.gov.au.

Maximising your income

You may be able to structure your investments and income to maximise your retirement income.

The Department of Human Services Financial Information Service can give you information on how your assets and super may impact on your Age Pension benefits. You may also benefit from getting financial advice from a licensed adviser.

Smart tip



Even if you don't qualify for the Age Pension, you may be eligible for other benefits. For example:

- ▶ The Commonwealth Seniors Health Card helps with the cost of prescription medicines and other health services if you are of Age Pension age but do not qualify for the Age Pension. Go to humanservices.gov.au.
- ▶ The Seniors Card is a state and territory government card that gives discounts on travel and some retail services. It is available to Australians aged 60 and over. There is no assets or income test. Eligibility criteria and benefits vary slightly in each state and territory. Go to australia.gov.au and search for 'seniors card' in your state.

When can you withdraw your super?

To withdraw money from your super fund, either as a lump sum or through a regular pension (known as an 'income stream'), you must meet a 'condition of release'. The least complicated condition is simply turning 65 – at that age you can automatically withdraw your super even if you're still working. You can also access your super if you reach 60 and leave your job with an employer.

Otherwise, if you're under 65, to withdraw your super, in most cases you'll need to have:

- ▶ permanently retired from the workforce – officially, this means you do not intend to work for more than 10 hours per week,

AND

- ▶ reached your 'preservation age' – this depends on when you were born, as shown in the table below.

What's your preservation age?

Your date of birth	Minimum age for getting your super benefits
From 1 July 1964	60
1 July 1963–30 June 1964	59
1 July 1962–30 June 1963	58
1 July 1961–30 June 1962	57
1 July 1960–30 June 1961	56
Before 1 July 1960	55

There are exceptions and other ways to withdraw your super before you're 65. For example, you might use a 'transition to retirement' pension, which allows limited withdrawals from a pension account for people who have reached preservation age. See page 22 for more details.



Other conditions of release

Other situations may allow you to access your super before you're retired and of preservation age.

These include:

- ▶ permanent incapacity
- ▶ severe financial hardship
- ▶ compassionate grounds
- ▶ terminal illness
- ▶ temporary residents permanently leaving Australia.



Getting your super early usually means you have to pay more tax than if you leave it in your fund until you reach your preservation age and meet a condition of release. Note that some super funds may have stricter conditions of release, so contact your fund for details.

Also, beware of illegal schemes that claim you can withdraw your super early – details are on page 31.

Smart tip



After you have met a condition of release and withdrawn some, or all, of your super, you may still decide to return to work. This will not cancel the original condition of release, or mean that your income stream payments stop, providing the declaration you made was genuine at the time.

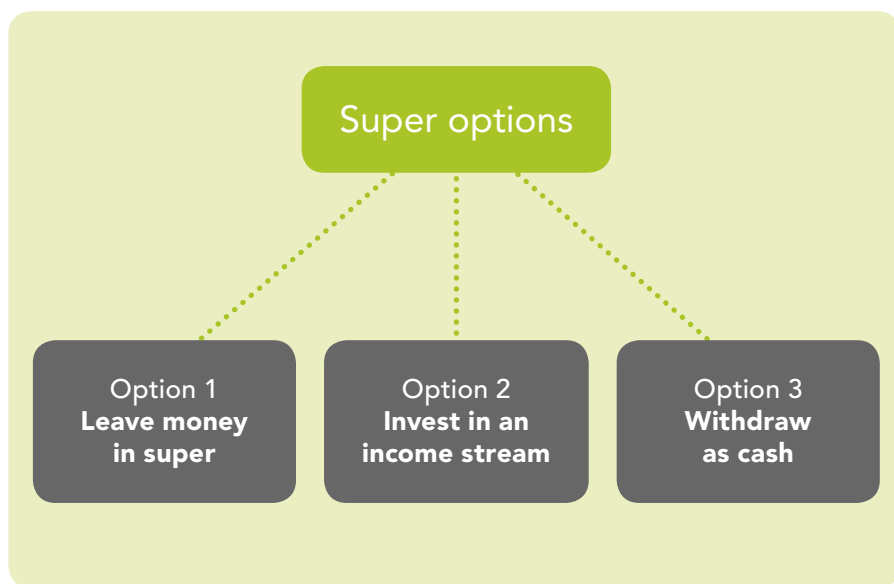
After you return to work, super benefits from your new employment cannot usually be withdrawn (they are 'preserved') until a new condition of release is met in the future. However, in some cases it is possible to start withdrawing your super even while you're working – for example when you turn 65, or earlier with a transition to retirement pension (see page 22).

What can you do with your super?

When you are eligible to withdraw your super, you have three main options:

1. leave your super where it is for a while
2. invest in a retirement income stream
3. withdraw as cash, all at once or in stages.

This section summarises the benefits and drawbacks of each option, although many people use a combination. Your decision may have tax implications and affect your Age Pension entitlements, so seek information from a Department of Human Services Financial Information Service (FIS) officer, your super fund or a licensed financial adviser.



Warning: These options are not relevant for defined benefit super fund members, whose retirement benefit is determined by a pre-existing formula. Talk to your fund or employer for the details.

If you have a self-managed super fund (SMSF), go to ato.gov.au or moneysmart.gov.au for more information.



Option 1: Leave your money in super

You may be able to leave the money in your super fund for a while longer, even after you're allowed to withdraw it.

✓ Benefits

- ▶ **You'll have more time:** This will allow you to consider your options and get advice. Your fund might provide useful services, such as seminars, publications and financial advice that help your decision.
- ▶ **You can still contribute:** Depending on your age and employment, delaying your decision may mean you still have the option to boost your super fund.
- ▶ **You can avoid selling in a downturn:** If share markets have dipped, you may decide it's a bad time to withdraw your money.



Note: Some super funds require you to take the money out or transfer it to another fund when you reach 65.

✗ Drawbacks

- ▶ **Pay tax on investment earnings:** While your money remains in your super fund, investment earnings are taxed at up to 15%. This may be more than the tax you'll be charged in a retirement income stream (see Option 2 on page 16).

Option 2: Invest in a retirement income stream

This is the most popular way to turn your super into a regular income for your retirement. It means transferring your super to a 'pension phase' super fund or account – these are usually offered by super funds and life insurance companies.

✓ Benefits

- ▶ **Pay less tax:** Keeping your money in the super system, in an income stream, means your investment earnings are tax-free, and for most people over 60, income payments are also tax-free.
- ▶ **Invest for your future:** Your money can be invested for a timeframe that suits your needs.
- ▶ **Spend less quickly:** Your money may last longer if you withdraw it in stages as an income stream, rather than all at once.

✗ Drawbacks

The Federal Government has set minimum amounts that must be withdrawn from your income stream each year. This is a percentage of your balance, based on your age.

Types of income streams

There are several types of income stream investments to choose from, including account-based income streams (including 'transition to retirement' pensions), annuities and other guaranteed investments.

Some of these options are very flexible, allowing you to withdraw some or all of your money at any time. Others are less flexible, but pay you guaranteed income. For the benefits and drawbacks, and more information to help with your decision about retirement income streams, see pages 20–27.



Option 3: Withdraw as cash

The second most popular option at retirement is to withdraw some or all of your super as a lump sum. Lump sum withdrawals are usually tax-free if you are over 60. If you're aged 55–59, or a public servant with untaxed super, you'll probably pay tax. Contact the ATO or an adviser to find out how much tax you will pay.

✓ Benefits

- ▶ **Reduce or clear your debts:** Withdrawing a lump sum may let you clear debts, or pay other necessary expenses, which will save you money in the long run.
- ▶ **Withdraw money in stages:** You could withdraw a partial lump sum at regular intervals, or as you need it. This may have tax and Centrelink benefits, depending on your age.
- ▶ **Invest outside super:** You may find it easier to take some or all of your money out of super and put it in a simple savings or investment product, such as a low-fee savings account or term deposit, or another investment that suits your needs. This may help ensure you have some cash for short to medium-term needs. For information about investments outside super, go to moneysmart.gov.au and click on the Investing tab.
- ▶ **Treat yourself:** You might be able to pay for something that wasn't affordable before, such as travel, home improvements or a car.

✗ Drawbacks

- ▶ **Splurge risk:** You may be tempted to overspend or live beyond your means until the money runs out.
- ▶ **Lower future income:** Spending now will reduce your retirement income in the future.
- ▶ **Pay more tax:** Tax may apply to investment earnings outside super. Investments can grow tax-free in a retirement income stream.



Case study: Robert uses a mix of options

Robert, 65, is retiring with \$130,000 in super. He decides to take out \$20,000 in cash to pay for a holiday and some home improvements. He invests the remaining money in an account-based income stream. 'I want to be comfortable in my retirement, so fixing up my house and providing myself with additional income to supplement the Age Pension will do me just fine,' Robert says.

By investing \$110,000 in an income stream, Robert will receive regular income payments on top of his Age Pension. He'll still have the flexibility to withdraw cash if new expenses arise.

Strategies such as equity release and property downsizing could be considered later if his account-based pension runs out.



The right option for you

You don't have to take an 'all or nothing' approach to your super when you retire or reach preservation age. You may benefit from combining a mix of the options and products described above. For example:

- ▶ You may keep some money available outside super for day-to-day expenses and in case it's needed for changes or unforeseen expenses. You may need professional information or advice to help you work out how much you need, but a buffer of 3 to 6 months of living expenses is sometimes recommended.
- ▶ You may invest other parts of your retirement savings to generate an income stream over a longer timeframe.

Your personal circumstances and needs are important when making your decision. If you're entering retirement with substantial debt, for example, using some of your super to pay it off may be a sensible strategy.





Self-managed super: know what's involved

Managing your own super through a self-managed super fund (SMSF) generally works best if you want to control your investment decisions, are willing and able to manage your own affairs, and have an understanding of the complex rules and regulations.

There are also running costs. These include the cost of investing, accounting and auditing your SMSF. You need to compare these costs to what your existing superannuation fund is charging you.

Also, members of SMSFs do not have the same level of consumer protection as members of most other types of super funds. For example, members of APRA-regulated super funds may be more likely to receive compensation for losses suffered as a result of fraud or theft.

Go to moneysmart.gov.au and ato.gov.au to find out more about SMSFs. The Australian Taxation Office website has detailed guides on running a self-managed fund, your responsibilities as a trustee, the strict rules you need to follow, and other considerations.

Your income stream choices

Account-based income streams

These accounts are popular for retirees who want to withdraw their super in stages instead of a single lump sum. They are also known as account-based pensions (and previously, as allocated pensions).

You may have investment risk in an account-based income stream, as the value of your account can go up and down depending on the investments you choose and how much money you withdraw.



After you open the account, the government will require that you withdraw at least the minimum amount each year. This depends on your age. If you're 64 or under, the minimum is normally 4% of your account balance at 1 July. Those aged 65–74 must withdraw at least 5% per year, and for 75–79 year olds, at least 6%. These figures may change – find up-to-date figures at [moneysmart.gov.au](https://www.money-smart.gov.au).

You can usually receive income payments monthly, quarterly, half yearly or yearly. Lump sum withdrawals are also allowed, generally with a minimum of \$500 or \$1000. You can make bigger withdrawals, if you wish, or even close your account and take the whole balance as cash.

✓ Benefits

- ▶ **Low tax:** Investment earnings are tax-free, and income stream payments are also tax-free for most people aged over 60.
- ▶ **Flexibility:** You decide the frequency and amount of your income payments, and can withdraw some or all of the balance if you need the cash or change your mind.
- ▶ **Choice of providers:** Account-based income streams are available from many super funds.
- ▶ **Investment options:** Like super during your working life, you can usually choose investment options to suit your needs.
- ▶ **Inheritances:** You can make arrangements so that, if there is money remaining in the account, an income stream or lump sum will pass to your beneficiaries or estate.



Drawbacks

- ▶ **Ups and downs:** In most cases, your money is not guaranteed, and the value of your account can go up and down.
- ▶ **Your money may run out:** How long your income lasts depends on your starting balance, the fees you pay, the investments you choose and their performance, and how much you withdraw each year.
- ▶ **Minimum withdrawal:** You must withdraw a minimum amount each year.
- ▶ **Fees:** Plenty of good value accounts are available, but watch out for fees. While many accounts have no entry fees, some charge up to 5%. Ongoing management fees also vary widely.

Summary

Account-based income streams are popular because of their flexibility and low tax, but watch out for fees, choose the appropriate investment option, and understand that the balance may not last as long as you do. Rolling money into your super fund's account-based income stream might be convenient, but check how this compares with other providers. There are links to super comparison websites at moneysmart.gov.au, or see a licensed financial adviser.

Case study: Jennifer opens an account-based income stream

Jennifer, 63, retires from work with \$170,000 in super. She doesn't need the super now, and a financial adviser recommends transferring it to a low-fee, account-based income stream. She initially withdraws the minimum 4% per year, while the rest of her money can grow tax-free in the 'balanced' investment option until she withdraws larger payments later.



Transition to retirement pensions

If you've reached preservation age and are working, a transition to retirement (TTR) pension may suit you. It can enable you to pay less tax, reduce your working hours while maintaining your income or boost your super. Many super funds that offer account-based income streams (see pages 20–21) also offer TTR pensions.

The minimum annual withdrawal requirements are similar to other account-based income streams – for example, 4% per year if you're 55–64. However, TTR pensions also have an upper limit on withdrawals. The maximum allowable withdrawal is 10% of the account balance each year.



✓ Benefits

- ▶ **Work less:** If you can't afford the drop in income when you reduce your working hours, drawing on a TTR pension could replace the salary you're no longer receiving.
- ▶ **Pay less tax:** Investments can grow tax-free (irrespective of your age) and pension income is tax-free for those aged over 60. If you're 55–59 you may pay tax on the TTR income, but you may receive a tax-free amount and a 15% tax offset on the taxable portion.
- ▶ **Boost your super:** By combining a TTR pension with extra salary sacrifice contributions to your accumulation super fund, you may boost your super. This can work particularly well for higher income earners because their pension payments are taxed at a lower rate than normal employment income. Consider getting advice for such strategies and be aware that there are maximum contributions you can make to your accumulation fund without getting a tax penalty. For information and case studies, search for 'transition to retirement' at moneysmart.gov.au.



X Drawbacks

- ▶ **Spending, not saving:** By withdrawing your super early, you may reduce your retirement funds for when you fully stop working.
- ▶ **Complexity:** You may need to pay for advice to understand whether this complex strategy is right for you.
- ▶ **Lose benefits:** If you have life insurance with your super fund, check that you won't lose insurance benefits if you transfer some of your balance to a TTR pension.

Summary

TTR pensions can replace some or all of the income you lose if you move to part-time work. The downside is that spending some of your super early may leave you with less money in retirement.

You may be able to boost your super through extra salary sacrifice contributions. This strategy may also be used by people who have not reduced their working hours. However, such strategies can be complex and there are caps on the total contributions you can make before penalties apply. You may need tax and financial advice.

Case study: Susan reduces working hours

Susan has just turned 60 and decides to reduce work to three days a week to gradually ease into retirement. Her salary will drop but she can soften the blow by starting a transition to retirement pension, and making small monthly withdrawals from that.



Fixed income annuities

If you want a fixed income in retirement, an annuity could be for you. In return for a lump sum withdrawn from your super or other savings, a life insurance company promises to pay you a guaranteed income for a period of time, or even for the rest of your life.

Your guaranteed income amount is decided when you invest in the annuity, so you know what you'll get from the start. Your returns aren't affected by share market ups and downs, but the safety of your money depends on the financial viability of the annuity provider.

Income may be paid monthly, quarterly, half yearly or yearly. You usually need to invest at least \$10,000. Annuities bought with super money must pay you a certain percentage of the balance, based on your age.

Types of annuity

- ▶ **Lifetime:** These pay you an income for the rest of your life.
- ▶ **Fixed term:** These pay you income for a term, such as 10 years.
- ▶ **Life expectancy:** These pay you income for your life expectancy.

Annuities may be deferred or indexed. Deferred annuities start income payments from a future date, such as when you turn 80. They are not currently available in Australia. Indexed annuities increase payments annually by an agreed percentage (for example, 5%), or in line with inflation.

✓ Benefits

- ▶ **Fixed income:** Your money is not affected by changes in share or property markets.
- ▶ **Indexed annuities:** These protect you from rising costs of living.
- ▶ **Lifetime annuities:** These payments last as long as you do.
- ▶ **Fixed-term annuities:** Payments are made for a fixed term. In some cases a lump sum or 'residual capital value' (RCV) may be returned to you at the end of the contract.
- ▶ **Beneficiaries:** Some annuities let you nominate a loved one or dependant as a 'reversionary beneficiary'. This means that they will receive some level of income if you die.
- ▶ **Guarantee period:** You may choose a fixed term guarantee period, when some money will be paid to your estate if you die during that time.



X Drawbacks

- ▶ **Money locked away:** Once you buy an annuity, you can't generally withdraw your money. However, some new annuity products do allow this feature.
- ▶ **Cost of extra features:** Having indexed payments or a residual value may mean your regular income payments are lower.
- ▶ **Conservative investments:** Your income may be relatively low (but steady).
- ▶ **Competition:** At present, only a few companies are offering lifetime annuities.
- ▶ **Inheritances:** Other than during a guaranteed period, money cannot be passed on to your estate from a lifetime annuity.

Summary

Annuities are less flexible than account-based income streams but, in return, you get certainty about your future income. Shop around to compare quotes.

Case study: Peter chooses a lifetime annuity with a guaranteed period

Peter is 65 and married. He invests \$200,000 in an annuity, which will pay a regular income of \$800 each month for the rest of his life, increasing with inflation each year. Peter likes the fact that the annuity has a 15-year guaranteed period, which ensures his wife Christine will receive a payment if he dies during that period.



Other guaranteed investments

A range of hybrid guaranteed retirement investments are available, usually combining some features of account-based income streams and annuities. However, each product is different, so you should read the details carefully and get independent information or advice.

The product providers may use words such as 'guaranteed' or 'protected', but these products may not be as safe as putting your money in a bank account – and you still rely on the provider's financial strength and stability.

Often, the provider of these hybrid investments guarantees to pay you a set annual income for a fixed term or for the rest of your life. How much you'll receive each year varies between providers. The range is generally 4-6% of your account's *starting* balance, after fees. This is often guaranteed regardless of how your investments perform.

Some products have a 'ratcheting' feature, where any investment gains are 'locked in' every 1 or 2 years. This may guarantee you bigger income payments in the future. However, if you make extra withdrawals, your future guaranteed income is usually reduced (see case study on the next page).

✓ Benefits

- ▶ **Low tax:** These offer similar tax benefits to other retirement income streams.
- ▶ **Investment choice:** You usually have a range of investment options.
- ▶ **Flexibility:** You can make extra withdrawals if you like (but at the cost of lower guaranteed income payments in the future).
- ▶ **Guaranteed income:** Your retirement income may be guaranteed for a fixed term or for life, unless you make extra withdrawals.
- ▶ **Beneficiaries:** You may nominate another person as a reversionary beneficiary to receive your income payments if you die, or your remaining account balance may be transferred to a beneficiary or your estate.



Drawbacks

- ▶ **Fees:** These can be higher than normal account-based income streams to cover the guarantee.
- ▶ **Extra withdrawals:** These will reduce your guaranteed income.
- ▶ **Income growth uncertain:** It may be unlikely that your guaranteed income increases from its initial starting point because of the impact of fees and your withdrawals on investment growth.
- ▶ **Product complexity:** These can be difficult to understand.
- ▶ **Not index linked:** Your income won't rise as living costs increase.

Summary

Read the terms and conditions carefully, consider the fees, and weigh up the costs and risks of these products against the benefits they provide. While there may be attractions, some of these investments are complex and costly. Read the product disclosure statement (PDS) thoroughly to understand how protection is given. Each product is different, so do your research or get advice.

Case study: John withdraws his money early

John, 62, invests \$200,000 and is guaranteed income of at least 5% (\$10,000) per year. After 5 years of income payments, his account balance has dropped to \$150,000. His wife then experiences health problems, so John withdraws an extra \$50,000 to cover medical costs. This triggers extra fees and, because the amount in his account has dropped further, John's future guaranteed income reduces too.



Estate planning and wills

It's important to decide how your assets will be distributed when you die, and to make arrangements to protect your family and minimise their tax bills. An estate plan includes documents that explain how you will be cared for, medically and financially, if you become unable to make your own decisions in the future. For more on estate planning, go to moneysmart.gov.au and search for 'wills'.

Your accountant or financial adviser can work with a legal professional who specialises in estate planning.

Your will

Nearly half of all Australians die without a will. If that happens, or if your will is invalid, the government pays your bills and taxes from your assets and then distributes the remainder based on a predetermined formula. Some family members will receive more than others.

But even if you have a will, your bills still affect the amount of money available to be distributed to your estate.

Superannuation death nominations

Super assets cannot be included in a will, but your fund may allow you to make a 'binding nomination' so that your super will be distributed as you wish after you die. However, this will not be binding on the fund trustee unless the nomination complies with superannuation legislation, and the benefit must be paid to somebody who is your dependant under the law, or to your estate. A dependant may include your spouse, or a child under 18. Children over 18 are not automatically considered to be financially dependent, so they may pay tax on your death benefits.

Smart tip



It's a good idea to review your insurance needs, including life and income protection insurance, as you approach retirement. For a review, see an adviser, or for information go to lifewise.org.au.



A 'non-binding nomination' means the distribution of your super when you die is at the discretion of the fund's trustees. However, your nominations are considered and usually complied with unless there is a compelling reason not to do so.

Binding nomination documents must be completed and signed by the fund member and witnessed by two people over 18. They last for 3 years. After that, how your super is paid out after your death is at the super fund trustees' discretion.

Powers of attorney

This is a document that appoints someone to act on behalf of another in a legal or business matter. This may be a general or specific power, and may be unlimited or limited to a specific act. An enduring Power of Attorney also authorises your nominated representative to make property and financial decisions for you, but unlike an ordinary power, continues to have effect even if you become mentally incapacitated at a later date.

Organ donors save lives

For many people, organ donation is an opportunity to give new hope to others. One organ and tissue donor can save the lives of up to 10 people. Almost anyone can donate organs and tissues. Your age, health and lifestyle are not restrictions.

After you die, your organs and tissues cannot be donated without your family's consent. Often, a donation cannot happen because families didn't know their loved one wanted to be a donor. If being a donor appeals to you, find the right time to have a family conversation – to ensure they know about your wishes.

For more information go to donatelife.gov.au.

Investments to think twice about

The consequences of a poor investment decision, bad advice or even fraud can be more serious as we get older because we have less time and ability to make up for losses. And, sadly, some people entering retirement are more vulnerable to investment and insurance fraud than others.

All the investments described so far in this booklet have risks, but here are some strategies and products that may be riskier or more complex than others.

Risky trading products

A wide range of complex trading products are now available to consumers, including hybrid securities, contracts for difference (CFDs), foreign exchange (forex), options, futures and warrants. Just because they are promoted through advertisements on television and radio doesn't mean they are suitable for the general public. Even experienced investors will struggle to understand their risks and consistently make money. For more information and investor guides, go to **moneysmart.gov.au** and search for 'complex investments'.

Capital 'guaranteed' or 'protected' investments

These may sound safe, but take extra care to understand the nature and risks of some complex investments that may have 'knock out' clauses that cancel protection. If you don't understand how the investment and capital protection are structured, and how the promised returns are achieved, you should not invest in the product. Go to **moneysmart.gov.au** to download the booklet *Get the facts: Capital guaranteed or protected investments*.



Unlisted mortgage funds, debentures and unsecured notes

In the past, some of these products have proved to be highly risky, rather than safe investments appropriate for retirees seeking a secure return. You could lose some or all of your money if the company or project fails. Read the product disclosure statement (PDS) or prospectus to see how the investment measures up against ASIC's disclosure benchmarks. Go to moneysmart.gov.au and search for 'Unlisted debentures'.

Margin loans

While not an investment as such, borrowing to invest, or gearing, can be a risky strategy because your potential losses are increased. If the value of your investment declines, you may receive a 'margin call' requiring you to repay the shortfall immediately. If you don't have enough cash, your investments will be sold, often at the worst time. Your home may even be at risk. Visit moneysmart.gov.au for more information on margin loans.

Early access to super

Except in special circumstances, such as severe financial hardship, permanent incapacity or other conditions of release (see page 13), it's illegal to withdraw your super before you're 55 and doing so can lead to heavy tax fines. Some promoters of illegal schemes encourage people to withdraw their super to pay debts or transfer the money to a self-managed scheme, pocketing a large commission in the process. Some have even stolen the money or the investor's identity.

Smart tip



Find out about investment and super scams and warnings at moneysmart.gov.au. You can sign up for free to our e-newsletter *ASIC's MoneySmart Tips*.

Your action checklist



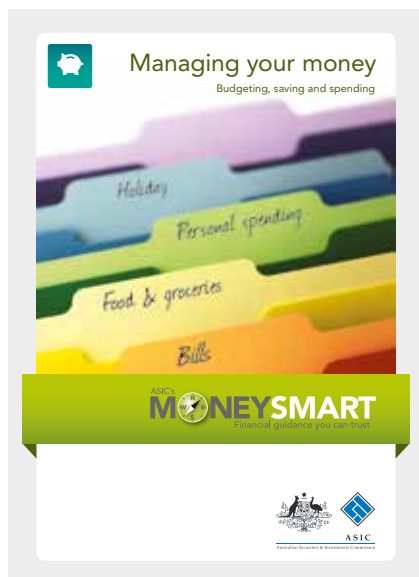
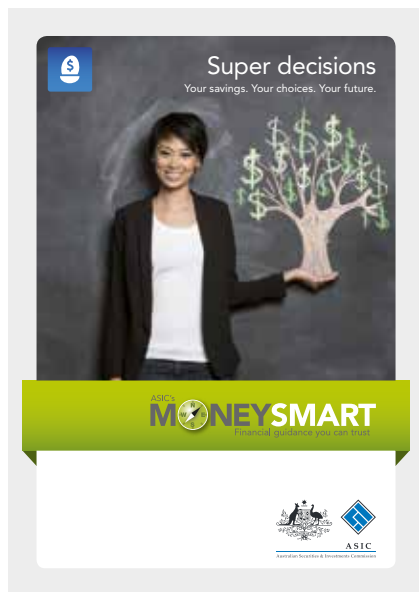
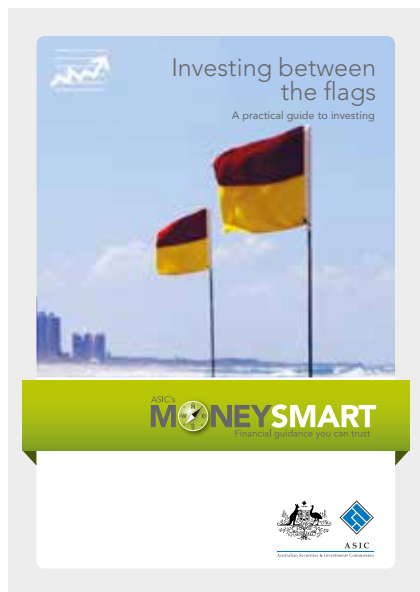
After reading this booklet, we hope you have a better understanding of the steps you can take to improve your finances in retirement. We recommend you take these actions:

- ☐ Visit **moneysmart.gov.au** and use the **retirement planner**.
- ☐ Visit **humanservices.gov.au** to find out about the Age Pension.
- ☐ Consider the benefits of professional financial and legal advice.
- ☐ Think about the benefits and drawbacks of cashing out your super, or investing it in a retirement income stream.
- ☐ Sort out your will, power of attorney and other estate planning documents.
- ☐ Work out your health and other expense needs for the future.



Other useful publications

Download these publications and more from moneysmart.gov.au or order them from ASIC on 1300 300 630.



Where to get more information

ASIC's MoneySmart website

ASIC's website to help you make smart choices about your personal finances. It has calculators and tips to give you fast answers to your money questions.

moneysmart.gov.au

Phone ASIC on 1300 300 630

Australian Taxation Office (ATO)

Information on tax, super and self-managed super funds (SMSFs).

ato.gov.au or phone 13 28 61

Department of Human Services

Information about payments, concession cards and the Financial Information Service (FIS).

humanservices.gov.au or phone 13 23 00

Department of Social Services (DSS)

DSS is responsible for Age Pension policy and has information for seniors on its website.

dss.gov.au or phone 1300 653 227

DSS also run the My Aged Care website, which has information on aged care and the costs you may face in retirement.

myagedcare.gov.au or phone 1800 200 422

Department of Veterans Affairs

Information for people and the families of those who have served in Australia's armed forces.

dva.gov.au

Phone 13 32 54 or 1800 555 254 (regional callers)

Financial counselling

A free service offered by community organisations and community legal centres. Search for a financial counsellor at **moneysmart.gov.au**.

Phone 1800 007 007 (financial counselling hotline)



Where you can make a complaint

Credit & Investments Ombudsman

Handles complaints about credit unions, building societies, non-bank lenders, mortgage and finance brokers, financial planners, lenders and debt collectors, credit licensees and credit representatives. They cover complaints where the value of the claim is \$500,000 or less.

cio.org.au or phone 1800 138 422

Financial Ombudsman Service

Handles complaints about banking, credit, loans and debt collection, life insurance, super, financial planning, insurance broking, stockbroking, investments, managed funds, timeshares, general insurance, finance and mortgage broking. It covers complaints where the value of the claim is \$500,000 or less.

fos.org.au or phone 1300 780 808

Superannuation Complaints Tribunal

Handles complaints about providers of super, retirement savings accounts and annuities. You must contact the trustee of your super fund before you go to the tribunal. The fund then has 90 days to respond to you.

sct.gov.au

Phone 1300 884 114 or 03 8635 5580

Glossary

Account-based income stream/account-based pension: A pension purchased with a superannuation payout on retirement. For most people aged 60 and over, these pension payments have been tax-free since July 2007. Previously, they were known as allocated pensions.

Accumulation super fund: A super fund where your retirement benefit depends on the money put in by you and your employers, and the investment return generated by the fund.

Age Pension: A regular, fortnightly payment from the federal government when you reach Age Pension age. You must meet certain criteria to get the pension.

Annuity: An investment, purchased with a lump sum, that guarantees to pay a set income for either an agreed number of years, or for life. Generally, your money is locked away for a fixed period or for life, though some annuities allow early withdrawals or for a 'residual capital value'. The income payments may be indexed each year, often in line with inflation. Some annuities allow for reversionary beneficiaries.

Beneficiary: Someone who will receive a benefit or asset in the event of the owner's death.

Binding death benefit nomination: Where the super fund, in the event of your death, must pay your superannuation benefit to your nominated beneficiary, unless it would be unlawful to do so.

Condition of release: A nominated event you must satisfy to be able to access superannuation savings. Examples include permanently retiring from the workforce after reaching preservation age, reaching age 65 or becoming totally or permanently disabled.

Defined benefit super fund: A super fund where your retirement benefits are calculated by a predetermined formula. Retirement benefits are usually calculated using your average salary over the last few years before you retire and the number of years you worked in the company or public service. Market fluctuations have no effect on the value of your benefit.

Dependant: The spouse, child or any other person who, in the opinion of the superannuation provider, financially relies on that member. Superannuation legislation defines dependant as the spouse and any child of the member. For tax purposes a dependant must be under 18 years of age or financially dependent.



Equity release: A way to access the equity in your home to provide you with additional funds in retirement.

Executor: A person specified in your will, or appointed, to administer the will.

Financial adviser: A person or authorised representative of an organisation licensed by ASIC to provide advice on some or all of these areas: investing, superannuation, retirement planning, estate planning, risk management, insurance and taxation.

Home reversion scheme: Involves selling all or part of your home while you still live there. You receive a reduced or 'discounted' lump sum payment in exchange for a fixed proportion of the value of your home when you sell it in the future.

Intestate: Dying without leaving a will. Your assets will be distributed according to intestacy laws in the relevant state or territory.

Investment risk: The possibility that your investment may fall in value or earn less than expected.

Non-binding nomination: Guides your super fund trustee on who will get your super if you die. The trustee is not bound to follow these instructions.

Pension: An income stream that makes regular income payments. Examples include the government Age Pension, an account-based income stream or term allocated pension from your super fund.

Power of attorney: A document that appoints someone to act on your behalf in a legal or business matter. A power of attorney may be general or specific and may be unlimited or limited to a specific act.

Preservation age: The age at which you can withdraw your super. You must also meet a condition of release.

Preserved benefit: A super benefit that remains in a super fund until the member reaches preservation age and, in most instances, retires from the workforce.

Product disclosure statement (PDS): A document that financial service providers must provide to you when they recommend or offer a financial product. It must include information about the product's key features, fees, commissions, benefits, risks and the complaints handling procedure.

Reverse mortgage: A type of home loan used in retirement as a way for people to access the equity in their home. The loan amount depends on your age, the value of the home and how it is taken (lump sum, regular payments or draw down as needed). Interest is added to the loan and does not have to be repaid until the house is sold, usually as part of your estate. See also 'home reversion scheme'.

Reversionary beneficiary: Somebody who receives a benefit, such as a retirement income stream, or its remaining value, when you die.

Salary sacrificing: When you and your employer agree to pay a portion of your pre-tax salary as an additional contribution to your superannuation. This can be a tax-effective strategy and usually suits middle to higher income earners.

Superannuation (super): Money that you and your employers put into a special fund during your working life to provide you with money to live on when you retire.

Transition to retirement (TTR) pension: A TTR pension allows you to reduce working hours in the lead-up to retirement without reducing take-home pay, or to continue working full time and make significant tax savings by salary sacrificing heavily into super and supplementing take-home pay with a super pension.

Trustees (of a super fund): People or a company appointed to manage a super fund on your behalf.

Will: An important legal document that sets out how you want your assets and other belongings to be distributed when you die.

For more information, see the glossary at moneysmart.gov.au



Please tell us what you think of our *Financial decisions at retirement* booklet.

Email: feedback@moneysmart.gov.au

ASIC Publications

Feedback

Reply Paid 3451

GIPPSLAND MC VIC 3841



ASIC's



MONEYSMART

ASIC's MoneySmart website has calculators, tools and tips to help you make smart choices about:

- ▶ Superannuation and retirement
- ▶ Investing
- ▶ Borrowing and credit
- ▶ Scams
- ▶ Budgeting and saving
- ▶ Insurance

moneysmart.gov.au

ASIC: 1300 300 630

Disclaimer

Please note that this is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice.

© Australian Securities and Investments Commission 2015.

ISBN 978-0-9805533-7-6 | April 2015 |