

# FACT SHEET

## Retirement Income Stream Products: A Comparison

Account Based Income Streams and Non Account Based Income Streams

### Introduction

When choosing an investment which will provide a regular income stream it is important to select the one most suitable. There may be other considerations in addition to those comparisons made overleaf such as those listed below.

### Other Considerations

- The amount that can be held in tax free retirement income streams is subject to the member's available Transfer Balance Cap. From 1 July 2017 an individual's transfer balance cap is \$1.6M
- Fees and charges vary among products. It should be determined whether the product offers good value
- Check carefully if there are any penalties or potential capital losses associated with terminating the investment or making withdrawals (commutations)
- All investments have risk. If there is the ability to choose the underlying assets of the investment make sure all associated risks are considered
- It may be possible to structure the income stream to access income without volatility and manage risk

### Taxation

Income payments may be assessable for income tax.

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A deductible amount, representing the return of capital, may be available reducing the assessable income. For people between ages 55 and 60 years, where superannuation is used to purchase the income stream, the deductible amount is determined by the proportion of the tax exempt component producing the income stream. A tax offset of 15% may also be available based on taxable income.

For people aged over 60 years income from a funded (taxed) superannuation source is exempt from tax.

### Government Income Support (GIS)

The treatment of Income Stream products under the Income and Assets Tests is dependent on the characteristics specified in the contract.

All income stream products purchased since 20 September 2007 are fully assessable under the Assets Test. Certain income streams purchased prior to 20 September 2007 may have concessional treatment under the Assets Test.

The treatment of income streams for income test purposes can vary.

For further information on this refer to Financial Information Desk publications 'Account Based Income Streams' and 'Introducing Immediate Annuities'.

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### Glossary

**Non commutable** - Cannot be converted to a lump sum in part or full.  
**Reversionary** - Person (surviving) to whom payments continue in the event of the death of the owner of the income stream product.

**Underlying assets** - The assets bought with the money to form the investment product e.g. the shares in the growth option of an allocated pension.

## Comparison of Income Stream Products

The chart below is intended as a guide only and covers the most commonly asked questions. For further information see our leaflets – Account Based Income Streams and Immediate Annuities.

|   | Account Based Income Streams (ABIS)   |  | Non Account Based Income Streams                                  |   |   |
|---|---|--|---|---|---|
|   | Account Based/Allocated Pensions (flexible)   | Transition to Retirement Pensions (TRP)  | Defined Benefit Super Pensions                                    | Lifetime Pensions & Annuities   | Life Expectancy Pensions & Annuities  |
| How secure is my Capital?                   | Depends on investment options chosen  | Depends on investment options chosen   | High (unless the trust deed is altered)                           | High  | High  |
| Can I withdraw lump sums at any time?       | Yes   | No   | Depends on fund rules   | No  | No  |
| Can I choose the level of income I receive? | Yes – as long as age based minimum taken  | Yes – between age based minimum & maximum 10%  | No  | No  | No  |
| Is my income guaranteed?                    | Only until money in the account runs out  | Only until money in the account runs out   | Yes (unless the trust deed is altered by paying institution)      | Yes<br>By paying institution  | Yes<br>By paying institution  |
| Must I use superannuation money?            | Yes   | Yes  | Yes   | Can be either super or non-superannuation   | Can be either super or non-superannuation   |
| When must payments commence?                | By 30 June in the financial year of purchase.<br>May be deferred if purchased after 1 June                                    | By 30 June in the financial year of purchase.<br>May be deferred if purchased after 1 June                                     | Depends on fund rules   | By at least the first anniversary of purchase   | By at least the first anniversary of purchase   |
| Can there be tax benefits?                  | Yes   | Yes  | Yes   | Yes   | Yes   |
| Is it counted as an asset for GIS?          | Yes   | Yes  | Depends on fund compliance with exemption characteristics         | Depends when purchased, (see notes below)   | Depends when purchased, (see notes below)   |
| Is it subject to the income test for GIS?   | Yes. Special rules can apply  | Yes. Special rules can apply   | Yes. Special rules apply. (see notes below)                       | Yes. Special rules apply  | Yes. Special rules apply  |
| How are death benefits treated?             | Can continue to spouse, or to a dependant for a limited time, or as a lump sum. Non-dependants can only receive as a lump sum | Can continue to spouse, or to a dependant for a limited time, or as a lump sum. Non-dependants can only receive as a lump sum. | Portion continues to spouse or to a dependant for a limited time. | Superannuation – fund regulations apply. Non-super – income to nominated reversionary. Lump sum available in guarantee period | Superannuation – fund regulations apply. Non-super – income to a nominated reversionary or estate. Lump sum payable |

**Notes:** For complying lifetime/life expectancy pension, Market Linked Income Stream (MLIS) or annuities purchased between 20 September 2004 and 20 September 2007 – 50% Assets Test exemption applies. Complying income streams purchased prior to 20 September 2004 – 100% Assets Test exemption applies.

For ABIS set up before 1 January 2015 for recipients on Government Income Support (GIS) before 1 January 2015, a deductible amount applies for Income Test. For new or transferred holders of ABIS or new recipients of GIS the balance is subject to 'Deeming' rules.

From 1 January 2016 the Deductible Amount is capped at 10% of income received for GIS Income Test purposes.

From 1 July 2017 income generated by TRP's is taxed up to 15% in line with funds in the accumulation phase