



# Financial decisions at retirement

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



ASIC's  
**MONEYSMART**  
Financial guidance you can trust



## About ASIC and MoneySmart

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

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

Visit [moneysmart.gov.au](https://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.



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# Introduction

Retirement means different things to different people. For some, it's a definite point in time when work stops and a new phase of life begins.

For others, retirement may be a gradual process where they vary their working hours as priorities shift, or perhaps leave employment and then return. Sometimes, 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 ready to retire but not sure whether your finances are in good shape, we can help. See 'How much money will you need in retirement?' on page 6, and use these resources:

- ▶ **ASIC's MoneySmart:** ASIC's consumer website, [moneysmart.gov.au](https://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 from super.
- ▶ **Contact the Department of Human Services (DHS):** A DHS Financial Information Service (FIS) officer can estimate how much Age Pension you will get and help you make sense of your options ([humanservices.gov.au](https://humanservices.gov.au)).
- ▶ **See a licensed financial adviser:** An adviser can help you assess your current position, your short and long-term needs, and develop financial strategies for achieving your goals, taking into account any tax and social security implications. ASIC's consumer website, [moneysmart.gov.au](https://moneysmart.gov.au), has information to help you choose a financial adviser, including a financial advisers register to check that the adviser is licensed.



## 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 a 'transition to retirement' strategy can be used to reduce working hours while maintaining your 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.

This booklet does not cover property or other investments held outside super. For information, go to [moneysmart.gov.au](https://moneysmart.gov.au).

### Smart tip



### Use our glossary

The glossary on page 36 clearly explains some of the words and terms used in this booklet.

# How much money will you need in retirement?

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 \$524 per week (\$27,368 per year). A couple needs about \$754 per week, or about \$39,353 per year, to live modestly.



To live comfortably, a single retiree needs about \$819 per week (\$42,764 per year), while a couple would need \$1,154 per week (or \$60,264 per year). This includes a car, clothes, private health insurance and leisure activities such as entertainment and holidays (see chart on page 7).

These figures assume retirees own their own home and are relatively healthy. Figures were correct at the end of March 2018, but inflation means retirement costs will rise over time. Go to [superannuation.asn.au](http://superannuation.asn.au) for more details.

## Are your savings enough?

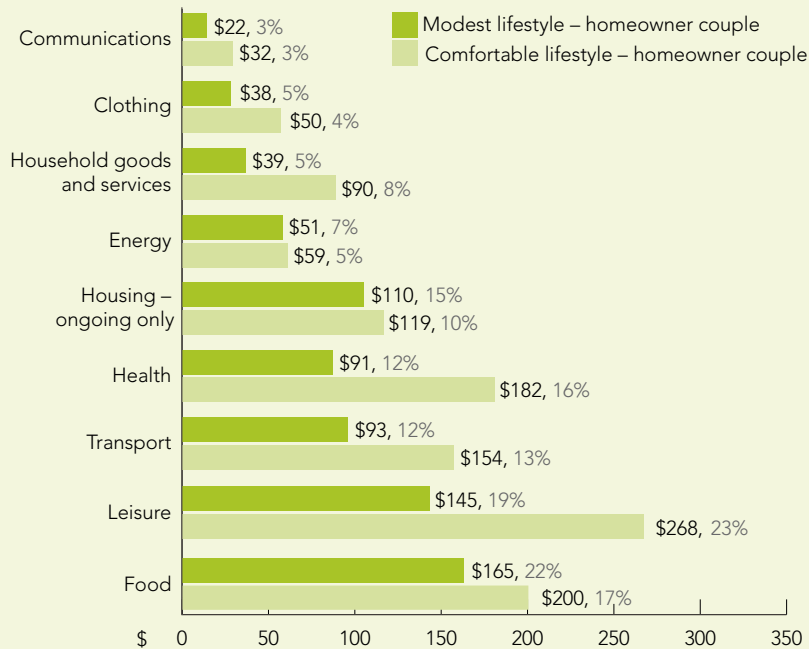
So how much income will your retirement savings provide you with? Use the **retirement planner** at [moneysmart.gov.au](http://moneysmart.gov.au) to understand the level of retirement income you can expect from your current savings.

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, March quarter 2018.

## 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 into account individual circumstances. Fifty percent of people aged 65 will live longer than their life expectancy.

Consider how long you want your money to last, you may live much longer than your current life expectancy.

\*Source: Australian Bureau of Statistics, Life Tables, States, Territories and Australia (October 2017)





## Accommodation costs in later life

One of the largest potential costs in later life is aged care. If you move into 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, nursing and personal care
- ▶ **a 'means-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.

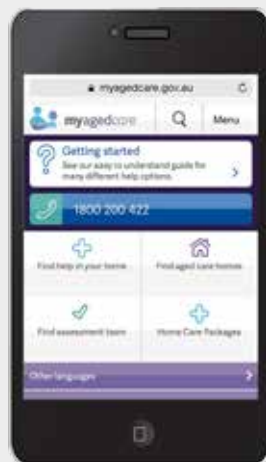
You may be eligible for government assistance with the cost of your accommodation. To test your eligibility for assistance, you need to undertake an assets assessment.

### 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 8am – 8pm weekdays and 10am – 2pm 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 2018, the maximum fortnightly pension rate was \$826.20 for a single person and \$1,245.60 for a couple combined. You may also be eligible for pension and/or clean energy supplements. For singles the maximum combined supplement rate is \$81.40 a fortnight. For couples it is \$122.60 a fortnight. Pension and 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 of 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 applied.

## 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](https://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 your Age Pension benefits. You may also benefit from getting financial advice from a licensed adviser.

### Smart tip



#### Seniors Card and Commonwealth Seniors Health Card

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 have reached the Age Pension age but do not qualify for the Age Pension. Go to [humanservices.gov.au](https://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](https://australia.gov.au) and search for 'seniors card' in your state.

# When can you get your super?

To withdraw money from your super fund, either as a lump sum or a regular pension (known as an 'income stream'), you must meet a condition of release. In most cases this means:

- ▶ reaching 'preservation age' and permanently retiring from the workforce – 'permanently retired' means you do not intend to work in paid employment for more than 10 hours a week,

OR

- ▶ turning 65 – the age at which you have unrestricted access to your super.

## 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 limited 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 retire and reach 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. 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



#### Returning to work

After you have met a condition of release and accessed 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.

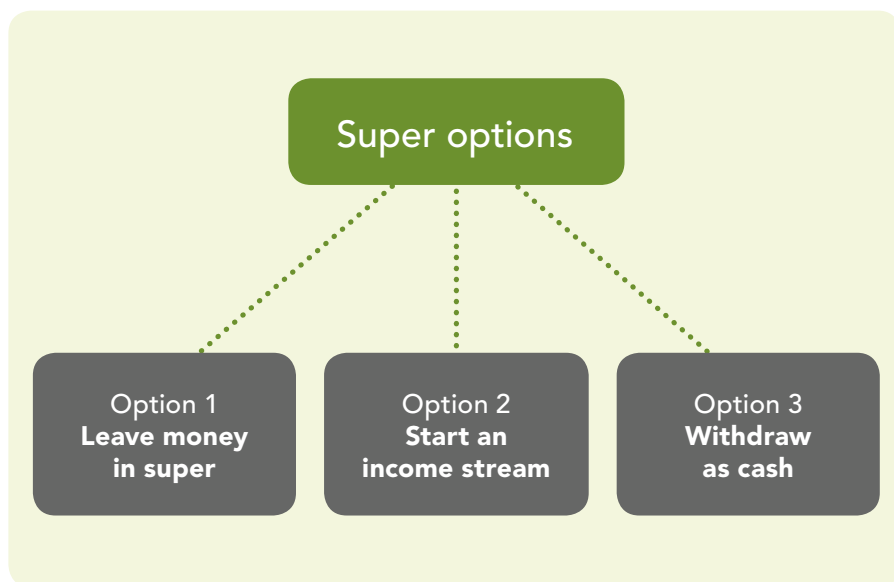
After you return to work, super benefits from your new employment cannot usually be withdrawn (they are 'preserved') until a new condition of release is met in the future. However, in some cases it is possible to start withdrawing your super even while you're working – for example when you turn 65, or 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. Start 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:** This information is 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](http://ato.gov.au) or [moneysmart.gov.au](http://moneysmart.gov.au) for more information.



## Option 1: Leave your money in super

You can leave your money in super for as long as you want to, 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: Start a retirement income stream

This is the most popular way to turn your super into a regular income for retirement. It means transferring your super to a 'retirement phase' account within your super fund, another super fund or life insurance company.

On 1 July 2017 a transfer balance cap was introduced that limits the amount of super that can be transferred to 'retirement phase' accounts to \$1.6 million. The lifetime cap will be indexed in future years, however, this will not increase your transfer balance capacity if you have already reached your transfer balance cap.

### 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.
- ▶ **Replace employment income:** Your money may last longer if you withdraw it in stages as an income stream, rather than all at once.
- ▶ **Invest for your future:** Your money can be invested according to your timeframe and income needs.
- ▶ **Lump sum withdrawal:** Most funds allow you to make lump sum withdrawals from your pension account if you want to.

### Drawbacks

- ▶ **Minimum withdrawal:** 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.
- ▶ **Transfer limit:** There is a limit on how much can be transferred to a tax-free retirement phase income stream, annuity or other guaranteed investment.

## Types of income streams

There are several types of income stream investments to choose from. 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 a 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 may pay some tax. Contact the ATO or your super fund 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 want to take some or all of your money out of super and invest it somewhere else, such as a low-fee savings account, a term deposit, or other investment that suits your needs. You might choose this option if you have short to medium-term cash needs. For information about investments outside super, go to [moneysmart.gov.au](https://moneysmart.gov.au)
- ▶ **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:** You may have to pay tax on 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 transfers the remaining money in an account-based income stream. 'I want to be comfortable in my retirement, so fixing up my house and giving myself 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 another lump sum in the future if he needs to.

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 you need it for any unforeseen expenses. You may need professional advice to help you work out how much you need, but a buffer of 3 to 6 months worth of living expenses is sometimes recommended.
- ▶ You might transfer some of your retirement savings to an income stream to generate regular income over time.

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 understand the complex SMSF 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](https://moneysmart.gov.au)** and **[ato.gov.au](https://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).

All investments have some risk. The value of your account-based income stream, can go up and down depending on the investments you choose and how much money you withdraw.



After you open the account, the government requires you to withdraw at least a minimum amount each year. This depends on your age. If you're 64 or under, the minimum is 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](http://moneysmart.gov.au).

You do not have to transfer your whole super balance to an income stream account. 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 \$1,000. 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.



## X 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.
- ▶ **Balance cap:** A transfer balance cap limits the amount that can be transferred to a tax-free retirement income stream.
- ▶ **Minimum withdrawal:** You must withdraw a minimum amount each year.
- ▶ **Fees:** Many accounts have no entry fees, others may 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 an appropriate investment option, and understand that the balance may not last as long as you do. Rolling money into your current super fund's account-based income stream might be convenient, but check how it compares with the pension accounts of other providers. There are links to super comparison websites at [moneysmart.gov.au](https://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, leaving the rest of her money to grow tax-free in the 'balanced' investment option.

Jennifer can increase her pension payments or change her investment option at any time if her circumstances change.



## Transition to retirement pensions

If you've reached preservation age and are working, a transition to retirement (TTR) pension may suit you. It can be used to reduce your working hours while maintaining your income or to reduce your tax, when used in conjunction with increased concessional contributions. Many super funds that offer account-based income streams (see pages 20–21) also offer TTR pensions.

The minimum annual withdrawal requirements are the same as ordinary account-based income streams – for example, 4% per year if you're 55–64. However, TTR pensions also have an upper limit on withdrawals of 10% of the account balance each year, and you will still pay tax on investment income.

TTR pensions do not count towards your lifetime transfer balance cap, unless in retirement phase.



### ✓ Benefits

- ▶ **Work less:** If you want to reduce your working hours but can't afford the drop in income, a TTR pension can top up your reduced salary.
- ▶ **Reduce income tax:** Pension income is tax-free for those aged 60 and over. If you're 55–59 you may pay tax on the TTR income, but you will receive a tax offset equal to 15% of the taxable portion.
- ▶ **Make extra super contributions:** By combining a TTR pension with additional concessional contributions to your accumulation super fund, you can top up your super as you approach retirement. This can work for middle and upper middle income earners because pension payments and concessional super contributions are taxed at a lower rate than employment income. Consider getting advice for such strategies because there are limits on how much you can contribute to super. For information and case studies, go to [moneysmart.gov.au](https://moneysmart.gov.au).



## Drawbacks

- ▶ **Spending, not saving:** By accessing your super early, you will reduce the amount you have left when you do fully retire.
- ▶ **May pay tax:** If you are under age 60 you may pay some tax on your pension income.
- ▶ **Complexity:** You may need to pay for financial advice to understand whether this complex strategy is right for you.
- ▶ **Lose benefits:** If you have life insurance within super, make sure that you won't lose insurance benefits by transferring some of your super 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 will leave you with less money in retirement.

TTR pensions can also be used to reduce tax, even if you haven't reduced your work hours, by allowing you to make extra concessional super contributions without reducing your take-home pay. However, such strategies can be complex and there are caps on super contributions. 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 to top up her income.



## Fixed income annuities

If you want a fixed income in retirement, an annuity could be for you. In return for a lump sum from your super or other savings, a life insurance company promises to pay you a guaranteed income for a period of time, or 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 an income for a set term, such as 10 years.
- ▶ **Life expectancy:** These pay you an income for your life expectancy.

Annuities may be deferred or indexed. Deferred annuities start income payments at a future date, such as when you turn 80. 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 the 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.





## Drawbacks

- ▶ **Money locked away:** Once you buy an annuity, you can't generally withdraw any of your money. However, some new annuity products do allow this feature.
- ▶ **Cost of extra features:** Having indexed payments or a residual capital value may mean your regular income payments are lower.
- ▶ **Conservative investments:** Your income may be relatively low (but steady).
- ▶ **Lack of competition:** At present, only a few companies offer 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

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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 means 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. Each product is different, so 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 they sound – you're still relying on the financial strength and stability of the product provider.

The provider of the hybrid investment may guarantee to pay you a set annual income for a fixed term or for the rest of your life. The income amount will vary between providers but is often 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 the 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 products 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 they may have some attractive features, they can also be complex and costly. Read the product disclosure statement (PDS) thoroughly to understand how protection is given and under what circumstances the income guarantee can change. 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.

John's wife then experiences health problems, so John withdraws an extra \$50,000 to cover her medical costs. This triggers extra fees and a drop in his future guaranteed income.



# 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](http://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. This will be binding on the fund trustee as long as the nomination complies with superannuation legislation, and the benefit is 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



#### Rethink your insurance needs

It's a good idea to review your insurance needs, including life and income protection insurance, as you approach retirement. If you need help reviewing your insurance needs, speak to a licensed financial adviser.



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 must be renewed every 3 years. If a binding nomination has expired your super is paid out after your death 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 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](https://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 to make up for losses. 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:

- ▶ **cryptocurrencies** – a type of electronic money, usually a digital token created from code using an encrypted string of data blocks, known as a blockchain. They can be bought or sold on an exchange platform, however these platforms are not regulated, so you have no legal recourse if the platform fails or is hacked, and you lose your money.
- ▶ **initial coin offerings (ICOs)** – digital tokens issued as a way of raising capital for blockchain projects. You often have no legal rights or protections and many have turned out to be scams.
- ▶ **foreign exchange (forex)** – trading in foreign currencies by speculating on the movement in the value of one currency, compared to another.
- ▶ **binary options** – a bet on the price movement of a financial product, such as a share or currency, an index, market or economic event.
- ▶ **hybrid securities** – lending money to a bank or company in exchange for interest payments.
- ▶ **stapled securities** – an investment where two or more securities are contractually bound together and can't be bought or sold separately, for example, a share and a unit in a trust related to the share company.
- ▶ **carbon trading** - buying and selling carbon credits (carbon offsets), which are units that usually relate to emissions reduction or sequestration activities, such as tree planting, improving energy efficiency or capturing methane from landfill.
- ▶ **contracts for difference (CFDs)** - a way of betting on the change in value of a share, foreign exchange rate or a market index. CFDs often use borrowed money, which can magnify gains or losses.



- ▶ **warrants** – used to put a deposit on a parcel of shares and pay them off over time, or a way to lock in the price of an asset now but purchase at some time in the future.
- ▶ **agribusiness schemes** - managed investment schemes that invest in livestock, farming, horticultural or forestry projects. They are popular with accountants for their up-front tax deductions but they may have ongoing costs, the risk of losing your money is high and they are almost impossible to sell.

Just because investments are promoted through advertisements doesn't mean they are suitable for you. Even experienced investors struggle to understand the risks, and make money from, some of these investments. 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.

## Unlisted mortgage funds, debentures and unsecured notes

In the past, some of these products have proved to be very risky investments and not 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 if it's been used to secure the investment loan. Visit [moneysmart.gov.au](http://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 reach your preservation age and doing so can lead to heavy tax fines. Some promoters of illegal early access 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



#### Get the latest money tips

To get the latest tips, sign up for free to our eNewsletter at [moneysmart.gov.au](http://moneysmart.gov.au) or follow MoneySmart on Facebook and Twitter.





# 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](https://moneysmart.gov.au)** and use the **retirement planner**.
- ☐ Visit **[humanservices.gov.au](https://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 starting 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.



# Where to get more information

## **ASIC's MoneySmart website**

ASIC's website can 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** or 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** or phone 1800 555 254

## **Financial counselling**

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

Phone the National Debt Helpline on 1800 007 007



# Where you can make a complaint

## Australian Financial Complaints Authority (AFCA)

On 1 November 2018, a single external dispute resolution scheme, the Australian Financial Complaints Authority (AFCA), replaced the Financial Ombudsman Service (FOS), the Credit and Investments Ombudsman (CIO) and the Superannuation Complaints Tribunal (SCT). FOS, CIO and SCT will continue to deal with complaints lodged before 1 November 2018.

**afca.org.au** or phone 1800 931 678

# 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:** A spouse, child or any other person who, in the opinion of the superannuation provider, relies on you financially. 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 investing, superannuation, retirement planning, estate planning, risk management and insurance. To check your adviser is licensed to provide the type of advice you want, search for them on **ASIC's financial advisers register**.

**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.

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

**Salary sacrificing (into super):** When you and your employer agree to pay a portion of your pre-tax salary as an additional contribution to your superannuation fund. 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.

**Transfer balance cap:** A lifetime cap on the amount of super that you can transfer into 'retirement phase accounts' to pay an income stream.

**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 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 full glossary at [moneysmart.gov.au](https://moneysmart.gov.au)



## Notes



ASIC's MoneySmart website has calculators, tools and tips to help you with:

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

**[moneysmart.gov.au](http://moneysmart.gov.au)**

Call 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.

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