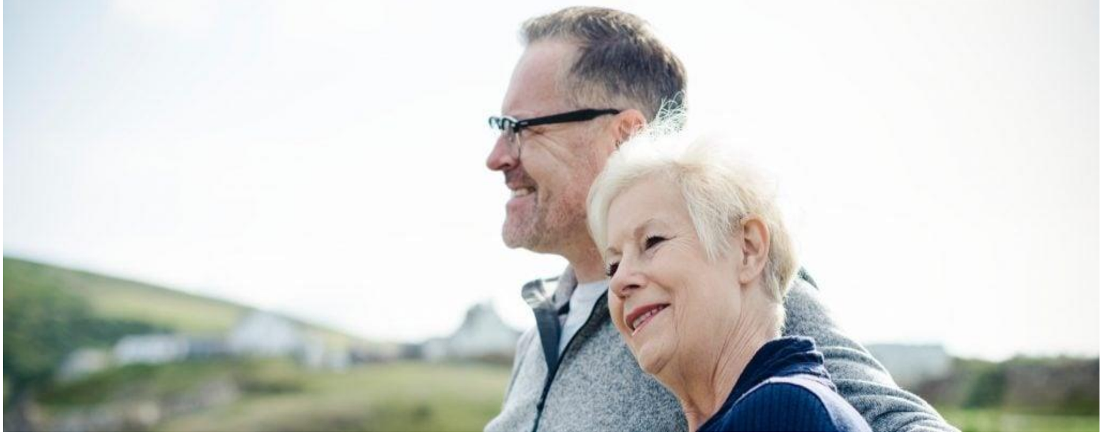
Your retirement income options



When you leave work for good and retire, where will your money come from? Discover your income stream options for covering living costs in retirement.

1. Account-based pensions

If you've reached the age when you can access your super balance – your preservation age – you've met a condition of release and you want to retire, there are a few different options for using your super to provide you with an income. Transferring money from your super into an account-based pension is one of these options. You get to choose how this sum is invested and you can withdraw money as a series of lump sums or as regular income payments.

There are two main advantages of an account-based pension. The first is that all investment earnings from your account are tax-free. Plus, you have the flexibility, subject to a minimum annual withdrawal amount, to access more or less money, whenever it suits you. However, it's important to be aware that the value of investments you choose for your account-based pension can go down as well as up. If your account earns negative returns and you withdraw your money at a fast rate, you may use up your balance before you die and need other sources of income to fall back on.

2. Annuities

You can also use super savings to buy an annuity to pay you a regular income in retirement if you've reached your preservation age and met a condition of release. The amount you'll receive will depend on the original sum invested and the terms and features of the annuity. You may decide to have your payments increase in line with inflation, for example. You can also choose a term annuity, where you'll receive payments for a fixed period, or a lifetime annuity, with payments guaranteed until you die. This is a big advantage of having an annuity – you can rely on the income, regardless of how long you live.

On the other hand, you may not be able to access a lump sum from your annuity, depending on terms and conditions. As your money won't be invested in market-linked assets, it's more secure, but you won't benefit from extra income when investment markets are doing well.

3. Other investments

Payments from annuities and account-based pensions come with the benefit of tax concessions and exemptions. This is why they're popular as income streams in retirement. But you can also earn income from other investments, such as shares or managed funds, or an investment property. Or you can put your money in a term deposit or interest-bearing account.

You can buy shares or property through direct investment, where you personally own the assets. These both fall into the capital growth category of investments. If you're prepared to hold these investments for longer – seven years or more – they may go up in value. You may also earn income in the meantime, through dividends and/or rent. Managed funds allow you to gain indirect exposure to assets like these, and many others.

Keeping your money in an interest-bearing account is a way to earn some income from your savings and have access to the balance whenever you need it. However, when interest rates are low, there's a risk that the value of your savings won't keep up with inflation – the rising cost of living over time. A term deposit may offer a higher rate of interest, but you may be charged fees or receive less interest if you withdraw money before the end of the term.

4. Age Pension and other Centrelink benefits

The Age Pension is a regular payment from the government to help older Australians cover their day-to-day living costs. To be eligible for the Age Pension, you must be of Age Pension age and provide all necessary details for the assets and income tests. The assets test takes into account the dollar value of your savings plus any assets you own, in Australia and overseas, except for your family home if you're currently living there. The income test includes all sources of income from Australia and overseas, such as earnings, pension and annuity payments, investment income, rent etc.

If your assets are above the current threshold for the assets test, you may not be eligible for the Age Pension, or you'll be paid a reduced amount. The same is true for the income test. The test that results in the lower pension rate will be the one applied to your Age Pension. Different thresholds and Age Pension payment rates apply to single people and couples.

In addition to an Age Pension payment, you may also be eligible for other Centrelink benefits such as energy supplements, carer payments and allowances, concessions on health costs and more. Even if you don't qualify for the Age Pension, you may still be eligible for a Commonwealth Seniors Health Card to help you with the cost of prescription medicines and other health services.

Visit the Department of Human Services website for the latest information on Age Pension eligibility and payment rates.

5. Working part-time

Continuing to work in retirement can be a great way to have a routine to stick to, maintain your social network and give you a sense of purpose. But it can also supplement your income and make retirement savings last longer. If you're eligible for the Age Pension, you can earn some income each fortnight without your payments being affected. This is called the Work Bonus and it allows you to earn income up to a certain threshold without reducing your Age Pension. And if you take a break, you can build up your Work Bonus balance and earn more when you start working again. From July 2019, self-employed people receiving an Age Pension can also benefit from this arrangement.

When you're weighing up different options and choices for your income, it helps to know how much you'll be spending in retirement. A CERTIFIED FINANCIAL PLANNER® professional can offer valuable advice on planning for a comfortable life after work. They can help you focus on your retirement goals and the money you'll need to make them happen. They can also explain the pros and cons of your retirement income options so you can make informed choices for your financial future.

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