COMMENCING AN ANNUITY

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An annuity works like a pay cheque. In return for investing a lump sum of money, an annuity provider pays you regular payments for either a fixed period or for the rest of your life depending on the type of annuity you choose. These payments are generally guaranteed, as the interest rate is usually fixed, at the time of investment.

Annuities can be designed to:

- Provide a regular ongoing income stream to support your retirement
- Provide tax free income if you invested superannuation funds are over 60 years of age
- Provide benefits for your spouse or another dependant should you die
- Return a capital lump sum to you or your estate at a later date.
- Receive beneficial Centrelink treatment for the Age/DVA Pension

TYPES OF ANNUITIES

Annuity investment terms can be fixed term or for your lifetime.

FIXED TERM ANNUITIES

Fixed term annuities have a fixed start date and end date that is typically chosen by you.

The minimum term is one year and the maximum term is 50 years. Your annuity payments are received for the duration of the term and stop at the end of the term. You can choose to have your capital returned at the end of the agreed term, or gradually during the term as part of the regular payments.

LIFETIME ANNUITIES

Lifetime annuities are designed to provide payments for the rest of your life. Payments start when the investment begins and last for your lifetime, even if you live much longer than you expect.

Lifetime annuities can help alleviate the worry that you will outlive your retirement savings. Some lifetime annuities have the added benefit of a guarantee (or withdrawal) period, to provide you access to your capital if required.

TAX TREATMENT

Annuities can be purchased using your non-superannuation or superannuation funds.

If the annuity was purchased using non-superannuation money, the income component is included within your assessable income and may be subject to tax, dependent on your taxable income

If an annuity was purchased with superannuation funds that are unrestricted non-preserved, you are age 60 or older and you receive the minimum income stream payments set by the Government, the annuity payments will be non-assessable income (tax-free).

WHAT YOU NEED TO CONSIDER

- Annuities are designed to be held to the term of investment selected. Generally, you will receive a return on your investment if you withdraw your funds prior to the end of term, but you may receive back less than you invested originally and less than you would have received had you held the annuity for its agreed term.
- Investing in an annuity will tie up your capital. Investing in an annuity will invest your funds at the interest rate applying on application date. You should carefully consider whether alternative investments such as term deposits, shares and managed funds will provide you with higher income returns for your life expectancy.
- Unlike term deposits, the funds invested are not subject to the Australian Government guarantee and you can not reinvest the capital without penalty if interest rates increased.
- The underlying funds invested to provide ongoing annuity payments are invested in a range of investments such as fixed interest, cash, shares and property. These investments are subject to investment risk
- The terms, conditions and costs can vary per Annuity Provider. Please review your Product Disclosure Statement

REFERENCES

You may wish to refer to the following websites for further information about commencing an annuity:

- www.ato.gov.au
- www.moneysmart.gov.au
- www.serviceaustralia.gov.au

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