

# Splashing out occasionally without putting their other plans on ice



**Discover how investing in a market-linked lifetime annuity could boost your Age Pension and squeeze more out of retirement.**

**Client:** Mateo and Mae  
**Age:** Both aged 67

**Assets:** \$600,000 each in account-based pensions

**Goals:** To maximise their Age Pension and the lifestyle they can afford, confident that they will have retirement income for life.

**Mateo and Mae are looking to have a comfortable lifestyle in retirement and have budgeted \$71,000 p.a. to achieve this. They own their own home and are free of debt. Now that they have fully retired this income comes from drawings from their account-based pensions.**

Having spent the past couple of years in part-time retirement, Mateo and Mae know that enjoying themselves can sometime cost more than expected.

They want to be able to spend a little extra every now and then, safe with the knowledge their money won't run out later on. They are looking for assurance that they won't ever have to live on the Age Pension alone.

## Healthy advice

**Plan A:** Before meeting with Mateo and Mae, their financial adviser crunched the numbers. The analysis of their current level of income from all sources (\$71,000 p.a. adjusted for inflation) sees their account-based pensions projected to last for approximately 29 years, or just past their couple life expectancy (when one of the couple is expected to be alive).

Increasing their income drawn for Mateo and Mae would deplete their account-based pensions more quickly. At the point where their account-based pensions were fully drawn-down, they would be dependent on the Age Pension for all of their income and this is not something that they are comfortable with.

Challenger Case study

**Plan B:** Their adviser’s second scenario allows Mateo and Mae to draw a higher level of income each year, but also provides them the assurance of future income, on top of any Age Pension they may be eligible to receive, for the rest of their lives.

This comprehensive lifetime income strategy involves investing 30% of their superannuation in market-linked lifetime annuities (choosing the index consistent with their risk profile) to achieve a combined income of \$74,000 p.a. adjusted for inflation.

This alternative strategy is projected to provide this higher level of income over 29 years. It continues additional payments for as long as Mateo and/or Mae live, indexed each year with market returns, ensuring that they never have to depend on the Age Pension alone.

A key benefit of this allocation to market-linked lifetime annuities for Mateo and Mae is retaining exposure to growth assets, in accordance with their risk tolerance. This allows the potential for income growth over time. That said, they both understand that with the potential for growth comes some volatility in income payments, including the possibility of payments reducing.

Their financial adviser projects that payments from their market-linked lifetime annuities start at \$13,640 p.a. combined in year 1 and increases to \$22,814 p.a. (in real terms) combined by year 30 based on their Conservative balanced (50/50 growth/defensive) risk tolerance.

These income payments will continue for as long and Mateo and/or Mae live. That’s a big difference to the account-based pension strategy. That strategy would project Mateo and Mae’s account-based pensions to be fully depleted by year 30 – leaving them dependent on the Age Pension alone for all their retirement spending.

Improving their financial health outlook

With a market-linked lifetime annuity they can have:

- **higher spending** with similar confidence the lifestyle will last as long as they do
- **peace of mind** that they have the financial independence of an **income for life that indexes with markets** never relying solely on the Age Pension

It’s important to understand the range of potential retirement income outcomes depending on market returns over retirement.

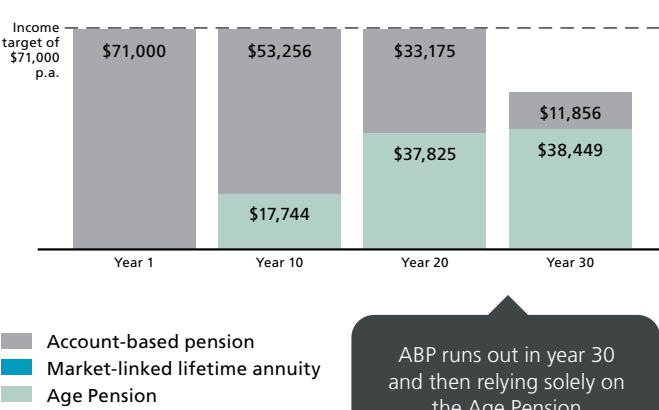
At life expectancy in the bottom 10% of simulated outcomes Mateo and Mae’s total income is just \$38,350, but with allocations to market-linked lifetime annuities have income of \$48,250 p.a. In the median simulated outcome the existing strategy delivers income of \$38,630 p.a. at life expectancy while the alternative strategy delivers \$59,030 p.a.

In both the top 10% of simulated outcomes their target incomes of \$71,000 p.a. and \$74,000 p.a. are met.

Market-linked payments have the potential for growth over time

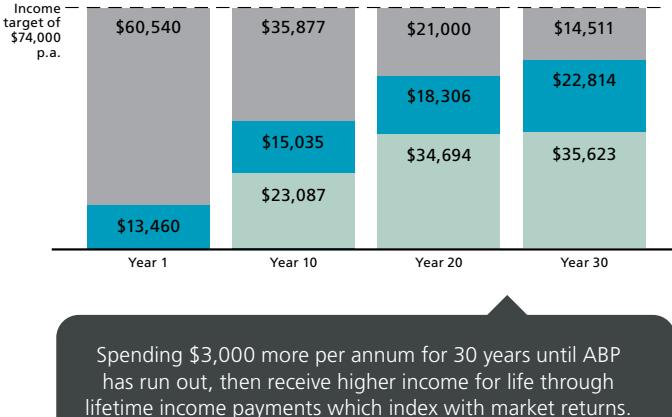
Keep in mind, payments are less predictable because they move up or down based on the performance of the market index

Account-based pension (ABP) strategy



ABP runs out in year 30 and then relying solely on the Age Pension

Comprehensive lifetime strategy

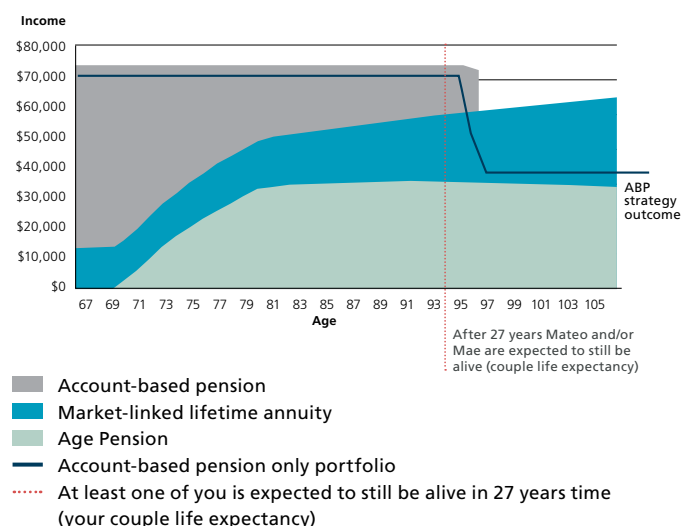


Spending \$3,000 more per annum for 30 years until ABP has run out, then receive higher income for life through lifetime income payments which index with market returns.

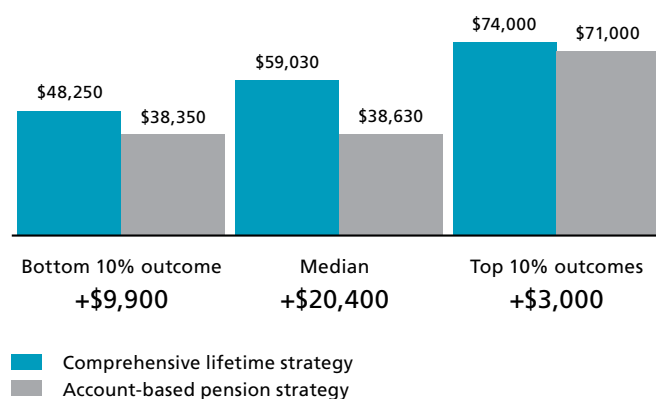
## Helping to maximise retirement income

Retirement income outcomes with ABP and 30% allocation to lifetime income stream versus ABP alone

### Retirement income outcomes



### Difference in retirement income at life expectancy under a range of market outcomes



## Market-linked lifetime annuities – refreshingly innovative

Challenger's Liquid Lifetime (Market-linked payments) provide a regular monthly income for life with the potential for growth over time, while accepting some downside risk. However, payments can be less predictable because they move up or down based on how the chosen market index performs.

A choice of five different indexation payment options lets you to match the payment allocation to your risk appetite – across both defensive and growth. All the available options are free of investment management fees. And there's the flexibility to switch the indexation payment options annually, at no cost.

The market-linked lifetime annuity has been designed to complement other retirement investments and sources of income such as account-based pensions and the Age Pension.

Investing in a lifetime annuity may even help boost Age Pension entitlements and provide more out of your retirement savings. Although in periods of strong performance, Age Pension benefits may reduce to reflect and balance the higher income received.



While the market-linked lifetime annuity is designed to be held for life, it includes a long period (based on life expectancy) where you have the flexibility to access a lump sum if circumstances change.<sup>1</sup>

What's more, it has a money back guarantee upon early death. If death occurs during the first half of the withdrawal period, 100% of the amount invested will be repaid to your estate or nominated beneficiaries.



## We're here to support you

For more information on lifetime annuities:

-  Speak to your financial adviser
-  Visit **challenger.com.au**
-  Call the Challenger Investor Services team on 13 35 66

1 The lump sum is impacted by movements in interest rates, the chosen index, and an allowance for the cost to us of breaking the investment, and cannot exceed the maximum voluntary withdrawal value.

Source: Challenger Retirement Illustrator using Social Security rates and thresholds effective 20 March 2022. 30% allocation to market-linked lifetime annuity with Conservative balanced payment option (50% growth, 50% defensive), pricing as 12/04/2022. Median retirement income outcomes chart calculated using median annual return for each future year across 2,000 return simulations. Difference in retirement income determined by analysing range of income outcome experienced across 2,000 simulations of retirement. 2,000 return and inflation simulations provided by Moody's Analytics. Spend increasing annually with price inflation, any excess income above spending in a year is assumed to be saved in cash outside super. Amounts shown are in today's dollars. See Challenger Retirement Illustrator for default fee assumptions and methodology guide.

After the first year, market-linked annuity monthly payments will move up or down annually adjusting to the changes in the chosen indexation payment option. In periods of strong market performance, any Age Pension benefits may reduce to reflect the higher income received.

This case study relates to a hypothetical couple, Mateo and Mae, and is provided for illustrative purposes only. This case study is not intended to reflect any particular person's circumstances. It is based on information that is current as at 12 April 2022 unless otherwise specified and is provided by Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670, the issuer of the Challenger Guaranteed Annuity (Liquid Lifetime) and the Challenger Guaranteed Annuity (collectively referred to as the Annuities), and Challenger Retirement and Investment Services Limited ABN 80 115 534 453, AFSL 295642 (together referred to as Challenger). The information is general only and has been prepared without taking into account any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should obtain and consider the Challenger Guaranteed Annuity (Liquid Lifetime) Target Market Determination (TMD) and Product Disclosure Statement (PDS) before making a decision about whether to acquire or continue to hold the Challenger Guaranteed Annuity (Liquid Lifetime) also known as Challenger Lifetime Annuity (Liquid Lifetime). A copy of the TMD and PDS can be obtained from your financial adviser, our Investor Services team on 13 35 66, or at [challenger.com.au](https://challenger.com.au). For Liquid Lifetime (Market-linked payments), only the first year's monthly income amount is guaranteed. After the first year, monthly payments will move up or down annually adjusting to the changes in your chosen market-linked indexation payment option. In periods of strong market performance, any Age Pension benefits may reduce to reflect the higher income received. Consult your financial adviser about potential impacts on your personal circumstances and whether a lifetime income is right for you.

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