Fiona & Frank

How Fiona and Frank achieve their ‘comfortable’ lifestyle in retirement

Client:	Fiona and Frank
Age:	Both age 67
Assets:	Homeowners – $250,000 each in superannuation, $10,000 combined personal assets and $50,000 cash.
Goals:	Paying the bills, continuity of income in retirement and an overseas holiday every two or three years to see their grandchildren.

Fiona and Frank

Cafe owners Fiona and Frank have recently retired. To help fund their retirement, they decided to sell their cafe and contribute the net proceeds from the sale to top-up their superannuation.

Fiona and Frank are looking for a comfortable retirement and have estimated they would need a combined income of about $70,806 p.a. (based on June quarter 2023 ASFA comfortable lifestyle retirement standard for a couple aged 65-84) to help fund it. They're sure they can't get by on the Age Pension alone (they are currently receiving $34,525 p.a.) and think they'll need at least $50,000 p.a. to meet their basic living expenses.

Knowing that their life expectancies are 23 years for Fiona and 21 years for Frank (the average for their current age[1]), they're worried there's a possibility they might outlive their savings.

So, to avoid having to potentially live on the Age Pension alone, Fiona and Frank want to find a source of income to help them meet their basic expenses in retirement. They're also concerned about share market volatility and would prefer to have only a moderate exposure to market-linked investments.

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1 Estimates calculated using Australian Life Tables 2015-17, with 25-year mortality improvements as provided by the Australian Government Actuary.

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Their financial adviser's recommendations

Fiona and Frank's financial adviser recommends that they convert their superannuation into a combination of income streams. This strategy is designed to give Fiona and Frank not only their preferred level of income, but also the flexibility and certainty that they desire.

Income stream 1

The first income stream Fiona and Frank's financial adviser recommends are two Challenger Guaranteed (Liquid Lifetime) Annuities. Their financial adviser recommends that they each invest 30% of their superannuation (or $75,000 each) into the annuities. This investment will provide them with regular payments that are indexed to the Consumer Price Index (CPI) for the rest of their lives.

Also, as only part of the amount invested into a lifetime annuity is counted under the assets test, Fiona and Frank will see an increase in their Age Pension entitlement.

Income stream 2

Their adviser also recommends that they each set up an account-based pension with their remaining superannuation balance of $175,000 each. With an account-based pension they can choose from a range of investments and select the income they draw, subject to the Government's minimum payment requirements.

The account-based pension is designed to provide them with an income stream that helps give them the lifestyle they desire until it runs out.

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Achieving their desired lifestyle whilst covering their basic living expenses

With the adviser's recommendations, Fiona and Frank will have income from various sources to meet different expenses.

Fiona and Frank's income for their first year of retirement is:

$8,594
combined from their Challenger lifetime annuities

$21,007
from their account-based pension

$39,205
from their Age Pension

$2,000
interest on money in the bank

These income streams, combined with the interest they earn on money in the bank, provide the $70,806 budget they were hoping for during their first year of retirement.

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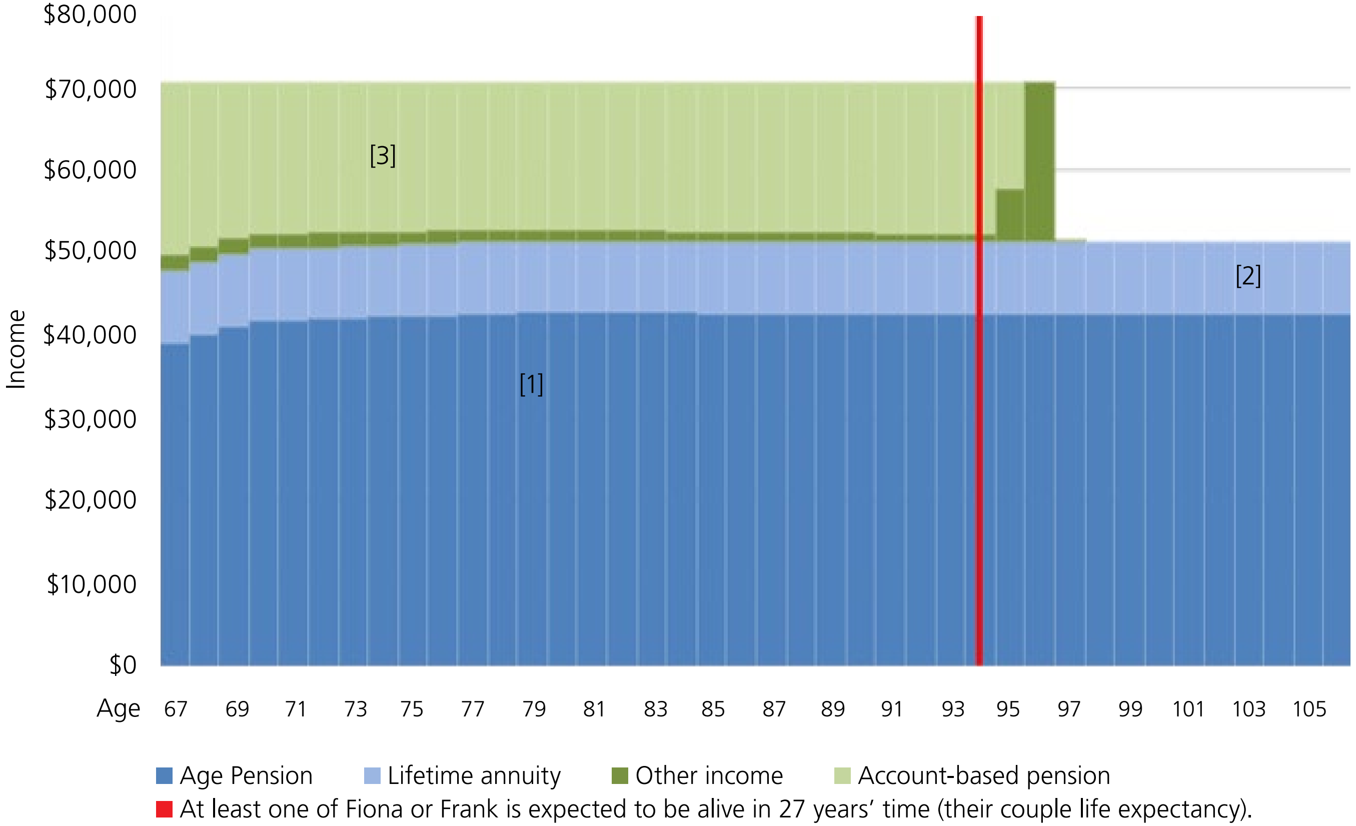
Achieving their desired lifestyle whilst covering their basic living expenses

Payments from the account-based pension (income indicated by [3] below) allow Fiona and Frank to achieve their desired lifestyle until the capital runs out.

The secure income from the Age Pension [1] and the lifetime annuity [2] provide them with guaranteed income which can help pay for their basic living expenses during their lifetime.



Age Pension benefits described above will not apply to all individuals. Age Pension outcomes depend on an individual (or couple's) personal circumstances and may change over time. While lifetime income streams may immediately benefit some Age Pension eligible retirees who are assessed under the assets test, in later years, if assessed under the income test, any ongoing Age Pension benefits may be reduced.

The calculations above are from Challenger's Retirement Illustrator tool as at 30 October 2023 (accessible to financial advisers only).

The Retirement Illustrator contains the following assumptions:

Government Age Pension: The Government Age Pension amounts illustrated are based on current law. For the purpose of rates and threshold indexation CPI and AWOTE are assumed to be the same. Any future changes to legislation will alter the Age Pension amounts projected. It is important to note that the Government Age Pension amounts projected are illustrations only and are not a guarantee that a person will be entitled to the Government Age Pension. Eligibility for Government Age Pension entitlements will vary depending on personal circumstances, including the future value of investments and changes to marital status. To check eligibility for the Government Age Pension, go to servicesaustralia.gov.au.

Continuance of life: The Illustrator assumes the life/lives being illustrated do not die before the end of the illustration period. Where death occurs before the end of the illustration period the results will be different.

Taxation: The Illustrator does not calculate any tax payable on the projected regular retirement income or capital gains. Generally, once a person turns age 60 and retires, any income received from superannuation investments is tax-free. However, other investments not purchased with money rolled over within the superannuation system may be subject to tax. Where the annuity is purchased with non-superannuation money, tax may be payable on any lump sum withdrawal amount.

Amounts are shown in today's dollars: Results are shown in 'today's dollars'. This means illustrations take into account the impact of inflation between the time of the illustration and the future date, in order to show all figures in today's purchasing power.

Assumed rates of return: The illustrator assumes Account-based pension growth assets return 8% p.a. and defensive assets, 4% p.a. before management fees of 0.80% and 0.40% respectively. In addition, platform fees are assumed to be 0.40% and cash deposits return 4% p.a. Lifetime annuities is assumed to form part of defensive assets and to maintain an overall asset allocation of 50/50 growth/defensive (including the allocation to the defensive lifetime annuity), the asset allocation of the account-based pensions has been set accordingly.

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